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# **THE GLOBAL DEVELOPMENTAL STATE**

*The triple non-alliance interaction of state  
bureaucrats, domestic capital and foreign  
capital in Korean economic development*

**Abdul Kareem Mohammad Alshamsi**

**PhD**

**2011**

# **THE GLOBAL DEVELOPMENTAL STATE**

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## **Abstract**

The current study deals with Korean (south) economic development. The country represents a clear case of success, in its economic growth as well as its democratic transformation. Both have been remarkable. The objective of the current research is to address the following question: how was it possible for Korea to develop while it was dependent? To tackle this question, the research began by grounding Korea's experience in proper methodological as well as theoretical frameworks. The research followed the critical naturalist methodology to approach its objective. At the theoretical level, Korea's (south) economic performance has represented a real challenge to the existing theoretical literature that deals with development issues. Modernisation theory focuses on market mechanisms and dismisses any significant role for the state (politics), whereas the dependency school discredits market mechanisms and calls for state involvement in these. Obviously Korea's economic growth involved a mixture of state and market. The question is thus: what is the theoretical framework that accounts for Korea's experience? As such the research examined the impasse propositions for both dependency and modernisation and highlighted their limitations. It concluded that the dependent development version of dependency is a proper framework to host development research. After arrival at this conclusion, the next question is: what is the corresponding model of such a theory? As theorised by Cardoso and Faletto, the dependency model is based on two main pillars. First is the historical-structural analysis and second is the triple interaction of state, domestic capital and foreign capital. It was revealed that the triple alliance was responsible for Brazilian partial growth success. For Korea, the question is: what is the form of triple interaction that corresponds to the Korean situation? The research hypothesised the triple non-alliance as a proposed model to account for Korea's

economic growth pattern. The study conducted an historical-structural analysis to confirm such a hypothesis. The analysis confirmed that the triple non-alliance is the corresponding model to Korea's economic growth. The task was then to relate Korea's economic performance to the existence of the TNA. The ascendance of globalisation exposed the triple non-alliance to a serious test. Globalisation pressures prompted the state to adopt aggressive adaptation measures. These policies altered the balanced TNA interaction and produced the economic crisis of the late 1990s. At the same time, it was shown that the rebounding of the economic growth process was strongly associated with state ability to restore the TNA. The adaptation process produced a new form of global developmental state (GD). The GD state is based on democratic institutions to preserve the TNA and not on security apparatus. Its mission is to supervise and sustain the growth process already in place in an era of globalised world. This function is demonstrated in the emergence of the southern multinational corporations (SMNTCs). The research thus confirms that the triple non-alliance dependency model is the underlying cause of the successful Korean economic growth pattern. Other major contributions to the current research could be summarised as follows: First, the study revived the dependence theory as a viable paradigm for dealing with development issues. Second, the concept of the triple non-alliance (TNA) is the other major contribution of the research. The third, and probably most relevant contribution, is the invention of the concept of the global developmental state (GD). The new GD state is the descendent of the now defunct developmental state.

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And of course this work is mine, and I am solely responsible for any of its shortcomings and deficiencies.

## **Declaration**

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work.

Name: Abdulkareem Mohammad Alshamsi

Signature:

Date:

# **Chapter one**

## **Introduction**

The current research attempts to identify the underlying causes of Korea's economic development. It assumes that Korea's successful economic growth is attributed to the state's ability to supervise a triple non-alliance interaction between its bureaucrats, domestic capital, and foreign capital. Substantiating this proposition implies dual objectives. The first is at the theoretical level. The research seeks to consolidate the concept of the triple non-alliance (TNA) interaction. And the second is at the analytical level. It attempts to relate the TNA to Korea's economic performance. As the triple non-alliance interaction is the negation of the triple alliance, identifying the earlier begins with revealing the way in which the latter was produced. The triple alliance (TA) is a form of dependency theory mechanism of triple interaction developed by Evans to account for Brazil's dependent development. The current research conducts an historical structural analysis of Brazil's social structure in order to consolidate the TA/TNA conceptualization. Next it seeks to apply this mechanism to analyze Korea's economic success.

The interest in economic development was motivated by the desire to contribute to the theoretical debate on developmental issues in our part of the world; that is, in the Arab countries. Such an interest goes back to the early seventies, when I joined the economic college at Cairo University. Beginning in 1974, President Sadat embarked on political and economic liberalisation in Egypt. The said policy was in reverse to the socialist policies of state controlled economy adopted by his predecessor, President Nasser. The policy was subjected to intense debate within the University

and outside. On the one side stood those who believed that state control over the economy should continue and argued that the failure of Nasser's regime to deliver on his promises was attributed to external powers that imposed three major wars on Egypt. The first was in the year 1956 when forces from Great Britain, France and Israel attacked Egypt in response to the latter nationalisation of Suez Canal. The second was Egypt's military intervention in support of a military coup in Yemen. And the last was the 1967 Egypt war with Israel. Besides that, there was no example of a successful market-led development in third world countries. The other view maintained that the failed economy and the military defeat were a direct consequence of state control and of an authoritarian type of government. As a fresh student, to me each view seemed to have its merits. In reality, at the time, there was no country in the developing world which achieved a sustainable economic development based on either of these views. However, from the late 1970s Korea began to attract more attention as a rising economic giant (Amsden, 1989). Indeed, South Korea's economic performance appeared to represent a good example of success for other third world countries. Having worked in Korea from 1987 to 1994, I had a valuable opportunity to witness at first hand part of the rapid and tremendous transformation taking place in the country, both at the economic and political levels.

A review of the literature on Korea's growth pattern revealed that, since the 1970s, the country - as a developing nation - has achieved impressive economic growth. It has been one of the fastest-growing economies in the world. Its per capita income in the 1960s was about that of Congo (Mins, 2001, p.1025). However, by 1996 it had reached the level of US Dollar of 13,369, an increase of 770 % ( Bullard et al, 1998, p.519). It registered an annual growth rate of more than 7% over the same period.

Furthermore, one of the striking features of Korea's economic growth is that "it has achieved this with less income inequality than most other third-world nations and a few advanced capitalist ones as well" (Barone, 1983, p.93). The country's achievement was hailed as being that of the next economic giant in Asia after Japan (Amsden, 1989). Furthermore, the review indicated that in the late 1990s the country faced a severe economic crisis, followed by subsequent recovery. And by 1998, the gross domestic product (GDP) -which was growing at an average of 7% before the crisis - had dropped to -6.7%. Remarkably, however, starting from the second half of the year 1998, the GDP growth bounced back and rose to 10.7%, exceeding the pre-crisis level (table 37). Hence the prime question was this: how was it possible for the country to achieve those successes?

The other feature of Korea's economic performance - indicated by the review - is the extensive state intervention in influencing economic activities. However, it was revealed that other states, such as Brazil, had also heavily intervened in the economic process. The question then was: how was it possible for Korea's state intervention to produce such results?

Furthermore, another dimension of Korea's growth pattern was the heavy dependence on the external world as a source for its foreign capital as well as a market for its product. It was revealed that Korea's foreign debts soared to US dollar 47.6 billion in 1985, whereas in 1987 its exports amounted to 42.5% of its GDP (Shilovestev, 1989, p.81). The question here is: how was it possible for Korea to develop while it was dependent?

Hence answering those questions could represent a model for other developing countries and demands an understanding of its historical trajectory, the principal features of which are summarised in the following table:

**Yi dynasty 1392-1910:**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>A Yangban-dominated political system ruled by a King. A social structure consisting of three main classes : the royal, the aristocrats and the commoners</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>84% of the population works in agriculture. No commercial or manufacturer classes</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>Closed to outside world. External relationship was mainly with China.</li> <li>1910 The annexation of Korea.</li> </ul>

**The Japanese occupation 1910-- 1945:**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>The Japanese liquidation of Korea's ruling class. Displacement of the Yangban bureaucracy. Establishment of capitalist social relations.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>Considerable economic activities. The net value of commodity product rose by about four times for the years from 1910/1912_1938/1940).</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>Japanese firm acquired 89% of total paid in capital by the end of 1938 .</li> </ul>

**The American military government (1945-1948):**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>The Japanese withdrawal was the major destabilising force.</li> <li>The separation of the country.</li> <li>The American Military Government became the new most important force that shaped the country's political and economic institutions.</li> <li>The election of the first Korean head of state since the YI Dynasty</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>The economy was sustained by the AMG-supervised development aid.</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>Foreign capital was in the form of aid</li> </ul>

**The years from 1948 to 1961**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>The eruption of more than three years' Korean war. The war swept away the nascent classes.</li> <li>Absence of deep rooted social class.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>The war disrupted the economic activities. Non-military physical loss reached 86% of the 1953 GNP. Foreign aid financed 70% of all imports. It constituted 80% of fixed capital formation.</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>Foreign capital-aid -allowed the country to embark on a debt-free growth process.</li> </ul>

**The years from 1961to the late 1970s:**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>The birth of the military-ruled developmental state. A new chapter in Korea's history began.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>The state embarked on transformatory programs. The per capita income jumped from \$82 in 1961 to an astonishing \$1546 in 1979.</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>The ratio of foreign debts to GNP increased from 4% in 1963 to 30% in 1971. Debt service of exports increased from 14% in 1969 to 28% in 1970.</li> </ul>

**The years of the early 1980s to the early 1990s:**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>The new military regime faced a tense social and political situation and mass demonstrations. Gradual political liberalisation began.</li> <li>June 29<sup>th</sup> declaration, and the amendment of the constitution to allow direct presidential elections. A full democratic process was in place.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>The early years witnessed a worsening economic situation. Economic growth plummeted to -5.5%. Current account was in deficit and reached \$5.5 billions. Foreign debt soared to \$34 billions. The inflation was well above 30%.</li> <li>The pressure of globalisation began to build up. An economic liberalisation followed. The overall economic condition was healthy.</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>The liberalisation drive was extended to regulations on foreign capital. Costs of foreign loans were far below domestic borrowing. Foreign savings finance of domestic investment reduced from 75% in the early 1960s to 10% in 1976.</li> </ul>

**The years from the early 1990s to the year 2000:**

<b>Political/social structure</b>	<ul style="list-style-type: none"> <li>Consolidation of the democratic process. Increased participation of civil society in the political process.</li> <li>The demise of the developmental state and the birth of the Global developmental state(GD)</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>Intensification of globalisation pressures. The loss of the TNA. The consequent advent of the 1997 severe economic and financial crisis.</li> <li>The GDP before the crisis was 7%. By 1998 it reversed to -6.7%. Then it bounced back to 10.7%. The current account was in deficit of -1.7% of GDP in 1997. And in 1998 it recorded a surplus of 12.7%.</li> </ul>
<b>Foreign presence</b>	<ul style="list-style-type: none"> <li>The liberalisation drive targeted the foreign capital as well. Foreign debt soared from \$44billion in 1993 to \$ 120 billion in 1997. Debt service was 5.4% in 1995 and 5.8% in 1996.</li> </ul>

The starting point in answering how it was possible for Korea to develop while it was dependent is to locate the current work within development theory. For such a purpose the research conducted a review of development literatures and arrived at a conclusion that dependency theory retained the potential to host this research. However, the review on dependency theory revealed the existence of various versions



within this school. Those versions were grouped into two main theories: the development of underdevelopment (the Frankian version) and the dependent development (Cardosian version). The research argues that the first failed to provide an adequate account for the newly emerging development realities in the third world countries. The development of underdevelopment theory was discredited for advocating the impossibility of a successful development process based on foreign capital engagement, whereas the Cardosian version, on the other hand, did contemplate a capitalist-based dependent development process. However, the failure of its policy recommendations in some countries of Latin America (ECLA recommendations) resulted in it being sidelined as a viable theoretical framework for analysing development issues. Based on these findings and given the fact that the success of Korea's economic drive did not contradict the dependency theory's basic argument, the research argues that the Cardosian version is the proper theoretical framework to account for the questions raised by this study. In its early version (Cardoso and Faletto, 1979) the dependency theory contemplated a successful dependent capitalist development through developmental state supervision of triple interaction among state bureaucrats, domestic capital and the multinationals. At its second phase the triple interaction evolved through Evans' (1979) work on Brazil into a triple alliance. Again, as in its earlier application, the dependency theory based on the triple alliance model failed to deliver on its anticipated economic success. The current work adopts dependency theory as a framework to uncover the causes of Korea's economic growth performance. However, unlike the earlier works, the current one assumes that the state - in dependency theory - supervises a triple non-alliance rather than a triple alliance interaction between its bureaucrats, domestic capital and foreign capital. Substantiating this proposition implies dual objectives.

The first is at the theoretical level. The research seeks to consolidate the concept of the triple non-alliance (TNA) interaction. And the second is at the analytical level. It attempts to relate the TNA to Korea's economic performance. As the triple non-alliance is the negation of the triple alliance, identifying the earlier begins with revealing the way in which the latter was produced. The triple alliance (TA) is a form of dependency theory mechanism of triple interaction developed by Evans to account for Brazil's dependent development. The research conducted an historical structural analysis of Brazil's social structure in order to consolidate the TA/TNA conceptualisation. The analysis revealed that the developmental state in Brazil was able to enforce a triple non-alliance. And that the TNA was associated with the country's economic "miracle". The exercise also showed that the state was not, however, able to sustain it, giving way to the emergence of the triple alliance (TA). The next objective is to apply dependency theory in its latest form (TNA) to account for Korea's economic performance. This objective will be accomplished through conducting an historical structural analysis of Korea's social structure. The exercise will first show the way in which the triple non-alliance interaction was formed. And second, the work seeks to relate Korea's economic growth achievements to the TNA.

The current chapter highlights the way in which the research came about. It starts by identifying the approach adopted to accomplish its objective. And next, it sheds some light on the sources and data utilised in the research. Finally, the chapter outlines the basic features of the research's various chapters.

## **CRITICAL NATURALISM**

The discussion in this section seeks to reveal where the current research fits in terms of approaches to knowledge. As was indicated, the current research undertakes an historical structural analysis of Korea's (South) social structure, in order to explain the causes of its economic success. As such, the research deals with issues at class and structure levels. It is thus distinguished from research that directly addresses individual actions. Consequently, in choosing an appropriate methodology, four basic points should be considered. First, the current work is a piece of social research with subject matter that differs from the subject matter of natural science. Second, the current research is at the levels of classes and structures that are unobservable, as opposed to social research that deals with (observable) individuals. Third, the unobservable structures just mentioned are in fact composed of human beings and are expressions of their actions. Fourth is the issue that human actions are influenced by social as well as natural science dimensions.

Reviewing social research philosophies revealed the existence of three main approaches to the social world. The first is naturalism, which seeks to extend a positivist natural science approach to investigate social reality. The second is constructivism, which rejects natural science-based approaches as a means to account for the social world. This rejection is based on the argument that subject matters of social science differ than those of natural science. The last approach to the social world is referred to as critical naturalism. It is developed by Bhaskar (1998) and is based on a realism approach to natural science. Critical naturalism seeks to apply critical realism approaches to the social sphere. It accepts the view that the subject matter of natural science is different from that of social science. But it argues that this

does not prevent the scientific examination of the latter. The current discussion justifies the adoption of a critical naturalist approach.

Before doing that, however, it will be useful briefly to introduce naturalism and constructivism. Naturalism advocates the view that the natural science approach to knowledge should be extended to approach social science. Its basic features are: first, it treats subject matters of nature as similar to social subject matters. Second, it does not recognise the unobservable as a subject of its investigation. It argues that observation and experience are the only means to uncover the reality of the existing “regularities” and “repetitions”. It also (third) holds that the real world exists independent of its interrogators (Moses and Knutsen, 2007, pp. 8, 18, 10, 29, 30). Naturalism is considered as “the most dominant and most familiar methodological approach in contemporary social science” (Moses and Knutsen 2007, p.18). This does not mean, however, that it is the most adequate approach in social science. And, as we mentioned earlier, the current study deals with unobserved objects, so naturalism is not the proper approach to address the issues raised by the study.

The next approach to social reality is constructivism. The most distinguishing feature of a constructivist approach is its “recognition that the patterns we study are of our own making”. The approach stresses “the important role of the observer and society in constructing the patterns under investigations”. This is a major departure from naturalism, which considers those patterns to be an “essential part of nature” (Moses and Knutsen, 2007, pp. 11, 165). The constructivist argument is based on the view that “the social sciences are qualitatively different from natural sciences” and consequently social scientists “must develop their own specific methods” (Benton and

Craib, 2001, p.75). According to the constructivist view, human beings - the object of social sciences - are “distinguished by their use of reason, will, and meaningful speech” (Moses and Knutsen, 2007, p.169). However, reason and experience, according to constructivism, are no more objective, because they are influenced by “contextual surroundings”. According to a constructivist approach “social sciences are concerned with understanding meaningful human action” (Benton and Craib, 2001, p.105).

How do these features of the constructivist approach relate to the current research? As explained earlier, the current research conducts an historical structural analysis of state / class interaction. As such, it is not about direct meaningful human action. Consequently, there is no direct correspondence between the constructivist view of social science - understanding meaningful human action - and the issues of the current research. However, critical naturalism is the most appropriate approach to deal with issues raised by the current study. The most distinguishing feature of critical naturalism is that it extends a critical realist approach to natural science to investigating the social world. Critical realism was developed by Roy Bhaskar (1998) as an alternative to positivism’s approach to knowledge. The basic difference between the two is that critical realism’s approach is not confined to observable phenomena, as in the case of positivism. It maintains that “adequate causal explanations require the discovery of both regular relations between phenomena, and of some kind of mechanism that links them” (Keat and Urry 1975, p.30) That is, we need knowledge of the “underlying mechanisms and structures that are present, and the manner in which they generate and produce the phenomena we are trying to explain” (Keat and Urry, 1975, p.32). Furthermore, positivism treated the subject matters of society

similarly to the subject matters of nature. In contrast, critical realism recognises the differences between the subject matter in natural and social sciences. According to critical naturalism "it is possible to give an account of science under which the proper and more or less specific methods of both natural and social sciences can fall" (Bhaskar, 1998, p.1). This account accepts that "there are significant differences in their subject- matters and in the relationship which their sciences stand to them", and that "it is not in spite of, but rather just in virtue of, these differences that social science is possible" (Bhaskar, 1998, p.3).

To be considered as a proper approach to the issues raised by the current study, critical naturalism needs to meet two basic criteria, first, to show that society is independent from its investigator and second, that the conclusions of the research could be empirically verified. The first point is dealt with through developing a new understanding of the society/agent association, something Bhaskar embarked on. He concluded "that societies are irreducible to people,[and that] social forms are a necessary condition for any intentional act,[and] that their *pre-existence* establishes their autonomy as possible objects of scientific investigation and that their *causal power* establishes their *reality*" (Bhaskar, 1998, p.25).

And on the second point- the impossibility of experiment in social research- the critical naturalist looks for "substitutes in social science for the role of experiments in the natural sciences"(Benton and Craib, 2001, p.135). In the current case "one analogue is the occurrence of crises in the social order, during which structures which are concealed in normal times become transparent." (Benton and Craib, 2001, p.135).

The crisis of the late 1990s in Korea presented a serious test for the current research's hypothesised model.

However, adopting critical naturalism does not mean that it is a perfect approach. The approach faced several criticisms. The most relevant was that its view of structure / agency association ignores "human embodiment", as well as the role of other non-human actors on social life (Benton and Craib, 2001, pp. 134-135). However, Moses and Knutsen, in spite of their reluctance to accept "universal narratives" as represented by critical (scientific) realism, recognised that it is "with much promise" in that it "offers a new universal approach - one that can straddle the natural and social sciences, as well as naturalist and constructivist tradition. It is a great synthesis of the two main methodological traditions in contemporary science". (Moses and Knutsen, 2007, p.15). A similar view is echoed by Benton and Craib, who maintained that "although the implications of this critical realist approach for the conduct of human science remain controversial, it has proved very fruitful in stimulating new research agenda in a number of human science and interdisciplinary fields" (Benton and Craib, 2001, p.119).

Given the review just presented, the current research approached its main question of what accounted for Korea's state success in promoting growth processes through adopting a critical naturalist methodology. The approach proceeds in three phases. In the first phase, the scientist identifies phenomena. Next, the scientist constructs an explanatory model. And finally, an empirical test of the explanation is carried out. Based on this, data on the observable Korean economic growth pattern were collected. Second, the research posed a question about the relevant structure that explains the

Korean-observed pattern of success. Based on existing literature on development – especially in Brazil – a triple non-alliance interaction was hypothesised to be the possible underlining structure responsible for the said pattern. And finally, the validity of the triple non-alliance model was tested through Korea's state success in sustaining the widespread and severe economic crisis of the late 1990s.

Having located the research's approach, it is important to shed some light on the sources and data collection. The issue of data collection is closely tied to the type of social theory adopted by the research under consideration. The current work relied on secondary data analysis. Secondary data collection retains eight advantages: cost and time, high quality data, opportunity for longitudinal analysis, subgroup analysis, opportunity for cross-cultural analysis, more time for data analysis, new interpretation and the wider obligations of the social researcher (Bryman, 2004, pp. 202-205). However, using secondary analysis was - in this study - necessitated by the nature of the research itself and so debates around the practical advantages and disadvantages of secondary analysis are less relevant here; as explained earlier, the current work deals with issues at class and structure levels and not at those of individual actions. Consequently, the current research did not generate its own data, nor did it conduct field researches or interviews. It relied on data collected by others. Furthermore, the research is also an historical examination that deals with past developmental data. Therefore, it is not possible for the author to produce his own data. Hence, all data utilised in the current research are official data. They were obtained through state-related agencies as well as international institutions, such as the World Bank and the International Monetary Fund, directly and indirectly through the works of others. Resorting to secondary data collections has its disadvantages however. Bryman



(2004) raised four main limitations: lack of familiarity with data, complexity of the data, no control of the data quality, and absence of key variables (Bryman, 2004, pp. 205-206) Again, these limitations mostly concern researches conducted at the individual levels and not at the grand theory levels. The exception is the disadvantage that concerns the issue of quality and reliability of secondary data. And on this point there is no solid ground to question Korean state figures; since the country is particularly heavily engaged with foreign investors, transparency in these figures is of the utmost importance. Also, those figures were produced on the understanding that they are cross-checked through international institutions, as well as through rating agencies. Similarly, there is no basis to question the motivation of data produced through internationally recognised institutions. One last point in this discussion concerns the absence of interviews as a source for the current study. Given the scale and scope of the research, developing a representative interview sample would have been unmanageable within the time constraints of the research. Further, reflecting the philosophy and aims detailed above, the research was not concerned with individuals' experiences and perspectives, making interviews an inappropriate means to collect relevant data for this project. However, the research greatly benefited from views exchanged between the author and politicians, bureaucrats, local businessmen and foreign investors during his assignment in Korea and these directly informed the research. Indeed, the concept of the triple non-alliance was first entertained during the said assignment (1987-1994).

The discussion next reviews materials utilised in the research. First, on Korea's economic performance, the research mainly depended on data and figures prepared by state-related agencies as well as publications of international institutions, such as the

International Monetary Fund (IMF) and the World Bank (WB), including commentary on and analysis of these by others, for example, the debate on World Bank publications on the state's role in promoting economic growth (Kown, 1994). The research then drew on a range of key texts or groups of texts to begin to develop its theoretical model and locate this in relation to the specific contexts of Brazil and Korea. A review of the writings on dependency from the journal *Latin American Perspectives* provided a key starting-point. Whilst these items were mostly written in the 1970s, their originality and significance in the formation of dependency theory were critical in developing the analysis constructed in this thesis. Furthermore, since that date dependency theory lost its predominance in the development research field and consequently it did not attract new researches, requiring engagement with the founding and historical literatures in the field. It was only from the middle of the 1980s, after the debate on theoretical impasse, that the interest in versions of dependency was entertained (Booth, 1985). The analysis of dependency then drew on three other key texts. Cardoso and Faletto (1979)'s book, *Dependency and Development in Latin America*, is considered to be the origin of the dependent development version of dependency. Secondly, Peter Evans' (1979) book, *Dependent Development*, which examined Brazil's dependent development, is pivotal to the build-up of the current dependency model. In this book the dependency concept of triple interaction evolved into triple alliance and was hence a crucial foundational text in the development of this thesis. The third was Lim's (1985) text *Dependent Development in Korea*. This work was useful because it extended the dependency model to East Asian experiences. It also brought into the dependency model the international political economy dimension (IPE). The state retained an important role in the current dependency model and, accordingly, a separate chapter was designated

to discuss the developmental state. A key starting-point for the analysis of the developmental state was the work of Peter Evans and his concept of embedded autonomy (Peter Evans, 1995). The embedded autonomy represented a very relevant concept to the current research. Indeed, both the embedded autonomy and the triple interaction constitute the mechanism of developmental state intervention.

Having noted the foundational writings in the development of the thesis as well as having discussed the use of secondary sources, it is worth acknowledging issues around the reliability of those sources. All the secondary sources utilised here were produced by reputable authors and, as such, there is no ground for questioning their reliability. Furthermore, resorting to such sources in academic researches is recognised as an acceptable practice (Alan Bryman, 2004, pp. 200-217). Reliance on such secondary sources was further necessitated by the point that the current research draws on a wide range of disciplines, such as sociology, development studies, history, political economy and economy, which makes it difficult, if not impossible, to review the original works in all these fields.

Having highlighted some aspects of the research approach, as well as a brief discussion on sources and data collection, the introduction next briefly sets out the rest of the chapters. The following chapter, Two, seeks to situate the current work within development literatures. It attempts to substantiate the argument that dependency theory stands as a plausible theoretical framework for addressing current realities in the development field. The chapter approaches this objective through two phases. In the first, it works to elaborate the impasse argument. The chapter notes that the impasse argument was first concerned with dependency theory. At a later stage,

however, it was shown that the other division of development research (Modernization Theory) was facing a similar deadlock. In the second phase, the chapter attempts to justify the selection of dependency theory (Cardosian version) as a proper framework within which to deal with current development realities. It elaborates on alternative routes out of the deadlock. It reviews several suggestions for breaking the deadlock. In this matter, the brief review reveals that the suggested ideas for strengthening the existing theories have led to dependency historical-structural analysis.

The chapter concludes that dependency theory stands as the most appropriate candidate to host development approach. Chapter Three seeks to build an analytical model that corresponds to dependency theory. It starts by addressing modernisation-based approaches that sought to explain Korean economic experience. It emphasises that these approaches considered Korea's economic success to be as a result of its adherence to the free market system. However, at a later stage, these theorists have admitted the increasing role of the state in economic growth. Next, the discussion reviews the opposite view, that of the neo-statist analysts. According to them, Korea's success is primarily attributable to extensive state intervention. However, the introduction of the governed market (GM) concept represents an admission of the importance of the market mechanism. The elaboration reveals that the neo-statists' approach seeks to reconcile the state's role with that of the market. The review notes that the neo-statist approach lacked the historical-structural dimension in explaining the role of the state. The discussion has revealed that Minns' work did raise the historical aspect. However, no serious work about applying this dimension has been

noted. Furthermore, his argument envisaged an interaction between state, local capital and labour force. Foreign capital was missing in this analysis.

The chapter discusses the historical-structural analysis advocated by dependent development. It is considered as encompassing the basic views of both the modernisation and the neo-statist approaches. It bridges the two views and adds the historical-structural tool of investigation to state involvement in economic development. The model revolves around a triple interaction among the state, domestic capital and foreign capital. The review of this section identifies four consolidation phases of the model. The first started with the work of Cardoso and Faletto. It outlined the basic tenets of the model of triple interaction. The second is associated with Evans' work on Brazil, in which the triple interaction evolved into a triple alliance. The third phase is identified with Lim's work on Korean dependent development. The work is considered as the first *dependencistas* attempt to explain Korean economic development. The discussion noted that Lim's work brings in the international political economy dimension. And Evans' work on Korea is the last phase in building the dependency model. The work is the bridging point between Latin American and East Asian experiences. The discussion concludes that the model should envisage the role of other social forces, such as the labour force and the student movement. It also needs to account for forms of foreign capital other than the multinational, such as foreign aid and foreign loans. Furthermore, the model should account for globalisation changes which bring up the role of international finance as another form of foreign capital.

The next chapter, Four, is dedicated to the discussion of globalisation. Its objective is to reflect on the impact of globalisation on the theoretical findings of the previous chapters. It seeks to answer the question of whether the selection of dependency theory and of the dependency model is a valid choice. Since the state assumes a prime role in the model, the discussion revolves around the impact of globalisation on the state's relevance and authority. The chapter argues that globalisation did not take away the state's relevance. The state was able successfully to adapt its role to conform with globalisation imperatives. The chapter begins by identifying globalisation as an increasing process of interdependence that has transcended the geographical domain of countries worldwide. The chapter places extra emphasis on the impact of globalisation on the role of the state. It seeks to substantiate the view that the state, in spite of globalisation, has retained its relevance as an active interventionist player.

Chapter Five deals with the developmental state. Its main objective is to identify the developmental state intervention mechanism. It begins by reviewing literature on advanced state intervention in the market. It stresses that the advanced state exercises a minimal role in arranging a conducive environment within which the private sector can operate. The section also notes that the state is "adjunct" to the private sector and assumes no transformatory objective. The next section addresses the state in the developing countries. It identifies five interventionist roles of the state in these developing countries. According to the review, the state first intervenes to arrange a proper investment environment. Second, the state performs the mission of an investment banker. Third, the state redirects investment to desired sectors (dis-equilibrating investments). Fourth, the state, in certain industries, undertakes the role of an "entrepreneur". And, finally, the state resorts to establishing the private sector.

Next, the chapter reviews the concept of "embedded autonomy". It reveals that "embedded autonomy" reconciles the opposing positions on state intervention with the market. One view argues for the insulation of the state's bureaucrats, whereas the opposite view advocates heavy bureaucratic involvement in society. Thus, the embedded autonomy concept combines both views and represents the mechanism through which the developmental state performs its roles. The discussion raises the point that the embedded autonomy argument lacks the foreign capital dimension. As such, it fails to capture the complete reality of the state intervention mechanism. Furthermore, embedded autonomy has been treated as given. No historical-structural work to reveal its formation has been conducted. The chapter then elaborates the association between embedded autonomy and triple interaction. It argues that the developmental state mechanism of intervention is carried out at two levels. At the first level, the state works to arrange a proper form of triple interaction (non-alliance). At the second level, it seeks to manipulate this mechanism to attain the semi-embeddedness of its bureaucrats. The current research assumes that identifying the proper form of triple interaction - alliance or non-alliance - requires an historical-structural analysis of the countries concerned. The chapter identifies the developmental state as that which supervises a triple interaction that enables it to secure an embedded autonomy of its bureaucrats as a mechanism by which to perform its transformatory objective.

The next chapter, Six, discusses the formation of the triple alliance and the triple non-alliance dependency mechanisms in Brazil. Its objective is to consolidate the formation of TA/TNA mechanisms. The first part of the chapter (1549-1964) reveals that the country's social configuration produced deep rooted classes of foreign capital

and domestic capitalists, whereas the second part (1964-1974) demonstrated the way in which the developmental state was able to ascertain a TNA interaction. This part relates the TNA to Brazil's economic "miracle". And finally, it shows how the developmental state lost the TNA interaction, and associated this loss with the derailed economic growth process. The chapter also presents a comparison between the historical trajectories of both countries. It shows that, contrary to that of Brazil, Korea's social configuration produced no consolidated class that might challenge the transformatory policies of the latter. In spite of this difference, however, both states were able to enforce a triple non-alliance. The chapter further reveals major differences between the two developmental states. The state in Korea worked to establish a domestically based growth process. As such, it carried out extensive policies to promote domestic industries, whereas the state in Brazil adopted policies to enhance private enterprises, whether local or foreign. Those policies ended up benefiting the multinationals at the expense of the locals and consequently, produced the failed economic growth process.

Chapter Seven's objective is to trace the formation of triple non-alliance interaction (TNA) in Korea. For such a task it undertakes an historical structural analysis of Korean social structure. The analysis covers the years from the Yi dynasty (1392-1910) to the birth of the developmental state in 1961. The elaboration starts by describing the existing social setting. According to this, the Korean social structure was divided into three main classes: the royal family, the *Yangban* and the commoners. This stratification was preserved by Confucianist teachings. Ownership of land was the basis of power and wealth. Neither a commercial nor a manufacturing class existed in this pre-capitalist social setting.



The country was opened up to the outside world as a result of the 1876 Kanghwa commercial treaty with Japan, whereas the 1905 Portsmouth agreement recognised Japan's special status in Korea. The treaty opened the way for the formal Japanese annexation of Korea in 1910. External intervention was the major destabilising force in the Yi dynasty's otherwise stagnant social situation. The chapter reveals that Japanese annexation meant the removal of the royal family and the displacement of the traditional class. The country began to witness the beginning of commercial, as well as manufacturing, activities. Foreign capital also began to arrive in the country. The discussion next covers Japanese measures to restructure the country in the political, economic and social fields. The focus of the review highlights the impact of Japanese policies on the formation of Korean bureaucrats and entrepreneurial and working classes.

The elaboration next discusses the process of social and political formation during the reign of the American Military Government (AMG). It starts by describing the social setting after the Japanese withdrawal from Korea. The departure meant the absence of a ruling class, bureaucratic class and capitalist class. Immediately after the Japanese withdrawal, Korean society was polarised. On one side stood the leftist forces who had gained a strong, favourable reputation among the Korean people. They were able to declare the first Korean People's Republic in Seoul. At the other extreme stood the conservative forces, consisting of landlords and segments of the Korean population who had cooperated with the Japanese. As a result of the Second World War, Korea was subjected again to external rivalry (USA and USSR).

The chapter highlights that economic and social formation in Korea resumed under the American Military Government. The AMG embarked on a three-phase process. Firstly, it declared the existing republic illegal and purged remnants of the leftist movement from the state and other institutions. Next, the AMG embarked on rebuilding the economy. Two stages can be identified. The economic rebuilding began with policies to sustain the Korean population and avert starvation and disease. The major tool at this stage was the provision of aid. At this stage, however, the aid did not contribute to the formation of a Korean capitalist class. At the second stage, the economic rebuilding shifted to developmental assistance. The American Military Government (AMG) initiated a parallel political reconstruction process. The process culminated in the birth of the first Korean republic. The state is now run by Koreans and the bureaucratic institutions manned by Koreans as well.

Early indicators of the triple interaction can be traced to the early years of the first republic. Korea, as a result of AMG policies, began to have a domestic ruling class, Korean bureaucrats and a Korean business class. The country also witnessed the presence of foreign capital in the form of foreign aid. The next objective of the chapter is the identification of the triple interaction form. Two processes are identified in the years from 1948 to 1961. The first elaborates on the political consolidation of the existing ruling elite. Its basic feature is the finding that the domestic capitalist class was a state creature. The process of class formation was shattered by the Korean War. However, capitalist class formation resumed, after utilising foreign military aid as the main contributor.

The second, parallel, process was carried on at the economic level. It revolved mainly around the role of foreign capital in capitalist class formation. The discussion confirms the existence of triple non-alliance forms between foreign capital (aid), state bureaucrats and domestic capital. It identifies the triple non-alliance as a form of dependency interaction, according to which foreign capital does not dominate state bureaucrats and domestic capital. At this stage, however, the triple non-alliance was not associated with the economic growth process, because there was no developmental state that retained a growth project. Furthermore, foreign investments and other forms of capital that are associated with economic growth were absent as well.

The objective of chapter Eight is to relate Korean economic performance to the existence of the TNA. It entails a discussion on the state's policies to consolidate its position and preserve the TNA. The discussion next elaborates on the state's measures to secure the embedded autonomy of its bureaucrats and, finally, the chapter associates the state's economic performance with the embedded autonomy of its bureaucrats. The state first embarked on purging and cleansing old bureaucrats, replacing them by new loyalist officials. It adopted measures to enhance the status of the new bureaucrats vis-à-vis other social classes. The state, as a way of strengthening its bureaucrats, established a monitoring mechanism to check on the quality of bureaucratic performance. Through these measures, the state was able to reconcile the proposition of bureaucratic insulation with the call for extensive bureaucratic involvement. That is to say, the state was successful in arriving at the "embedded autonomy" of its bureaucrats. The next discussion demonstrates the state's efforts to enhance further the position of its bureaucrats vis-à-vis private entrepreneurs, through

containing the activities of the latter. The state undertook contrasting policies. On the one hand, the state needs to support domestic entrepreneurs in order to generate the economic growth process. On the other hand, the state works to contain their activities in order to preserve the TNA. The first state measure was to subordinate and demoralise the private sector. Having achieved this, the state moved to control the blood line of businesses through controlling the banking sectors and the flows of foreign loans. By disciplining domestic capital, along with enhancing the position of its bureaucrats, the state was successful in fulfilling its interventionist role. The elaboration focuses next on state measures to influence the activities of the private sector. It reveals that the state manipulated three sets of policies, incentives, discipline and interaction.

The developmental state's dealing with foreign capital is the next subject of discussion. The discussion begins by emphasising that the state's attitude toward foreign capital is a seemingly paradoxical one. Foreign capital is necessary for the growth process but, at the same time, there is a danger that it might derail the said process to serve its interests. The discussion seeks to reveal the way in which the state was able to reconcile these contrasting objectives. It also stresses the reality that, since its early days, loans and direct investment were absent from the Korean scene. Korea was also distinguished by the fact that foreign aid played a prominent role in its economic development. However, foreign aid contributed to state strength. It allowed the state to embark on its economic transformation drive as a debt-free country. The discussion concludes that the developmental state attained an unchallenged dominance over the inflow of foreign capital. It also concludes that Korea represented

a new dependency case, in which indirect foreign capital (loans) was the dominant form.

The chapter next elaborates on the state's dealings with the labour force. Its objective is to review state measures to suppress the working class. It is emphasised that the current model takes into consideration the role of other major classes in society. The discussion recognises that the state - unlike in its dealings with dependency agents - implemented a one-sided policy against the labour force. It adopted a policy of subordination and repression in order to compete in the international market. The section concludes that, owing to state suppression, the labour force was not a direct partner in the triple non-alliance.

The chapter next establishes an association between the TNA and the economic performance of the developmental state. The discussion distinguishes between two phases of state policy. The first includes a detailed description of state measures that placed the economy on a growth track, whereas the second reveals state success in utilising TNA-related features to deal with ensuing crises.

Chapter Nine traces the birth of the global developmental state (GD). It discusses the impact of globalisation on the state's ability to preserve the triple non-alliance and, consequently, to sustain its economic development. As a result of the accelerated liberalisation drive in response to globalisation imperatives, Korea suffered a severe economic crisis. The chapter seeks to relate the advent of the crisis and its aversion to the TNA interaction. The chapter is divided into two main parts. The first deals with the period which extends from the early 1980s to the early 1990s. During these years,

the developmental state was pressured to undertake liberalisation measures in both the political and economic fields. Two important issues can be distinguished throughout this period. First, the liberalisation drive did not alter the existing supervisory and regulatory agencies of the state. Second, the period witnessed the birth of democracy, which represented the first major change in the essence of the developmental state.

The second part of the chapter deals with the events from the early 1990s to the year 2000. The period was characterised by intensified globalisation pressures that prompted another round of state adaptation moves. The globalisation drive of the said era led to the demise of the monitoring system and produced a consequent institutional vacuum. This situation eventually led to the loss of balanced TNA interaction. The chapter, furthermore, explains the unfolding of the severe economic crisis. The chapter also demonstrates the birth of the global developmental state (GD), which was able to re-establish the TNA and, through it, to resume its economic growth in a globalised world. The chapter's main conclusion is that the crisis was attributed to the absence of the TNA. This conclusion was confirmed by the fact the economic recovery was associated with the re-establishment of the triple non-alliance. Finally, the chapter addresses the efforts of the global developmental state (GD) to deal with the economic crisis. The review highlights three dimensions. It first stipulates the GD state's main features. In this regard, the GD state is identified as a democratically-elected state that retains a transformatory project and seeks to supervise an already existing growth process in a globalised world, utilising a triple non-alliance interaction, whereas the latter is now preserved through democratically-based institutions and through association with international institutions and agencies. The second dimension in the current discussion reviews the GD state's policies for

dealing with the severe economic crisis. The GD state carried out reforms in various sectors, such as financial, industrial, labour and foreign capital, the result of which was to reinstitute the TNA. The third feature in this review is an evaluation of the GD state performance. It demonstrates that the GD state succeeded in putting the economy back on the track of continuous sustainable growth.

The final chapter, Ten, summarises the main findings of the study. The research's first finding is that Korean economic success is attributable to a triple non-alliance interaction (TNA). Although both Korea and Brazil employed a triple interaction mechanism, it is the triple non-alliance that explained Korea's economic success. Through the TNA and the embedded autonomy, the state put in place vigorous regulatory and supervisory systems to oversee economic growth process. The second main finding is that the 1990s economic crisis and the recovery are explained by the triple non-alliance as well. Most important, however, is that there is strong evidence that these findings describe dimensions of the current global economic crisis. Today there is growing recognition of the weakness of the state regulatory role, which explains what happened to the world economy.

By arriving at these conclusions, the current study revives the discussion of dependency theory. The concept of global development state (GD) is the research's other key contribution. The GD state is a form of development state that corresponds to globalisation. Its objective is to steer the economic growth process through globalisation changes. The distinguishing feature of the GD state is that the triple non-alliance and, consequently, the embedded autonomy are now preserved through democratic institutions. On the association between economic growth and

democratisation, Korea's economic experience showed - according to the study - that democratisation comes as a product of successful economic growth.

Finally is the issue of whether the Korean economic experience is relevant to other developing countries. The current research confirmed that the dependency model accounted for economic experiences of countries (Brazil/Korea) that went through different historical trajectories. This gives strong support to the argument that Korea's economic experience is relevant to other developing countries.



## **Chapter Two**

### **Dependency: critiques and defence**

The objective of the current chapter is to situate the current work within development literature. As has been indicated in the previous chapter, the research's objective is to account for the underlying causes of Korea's economic development. The last chapter outlined the research's methodology. It revealed that critical naturalism is the appropriate way to approach the current study questions. Having accomplished this objective, the writer's task then is to answer the following question: to which theoretical discipline does this work belong?

To undertake this objective, a review of development literature was carried out. The review revealed that theories that deal with development issues may be grouped into two main divisions, firstly, modernisation theory and secondly, dependency theory. Modernisation theory is distinguished by two main features, firstly, its traditional opposition to state intervention in economic proceedings and secondly, its strong faith in market forces and private enterprise as the locomotive for growth and development. It advocates the view that development is achieved through adopting market oriented policies.

The second theory is dependency theory. It is developed as an outcome of literature on the impact of capital penetration on the possibility of economic development in backward countries (Hoogvelt, 2001, p.35; Leftwich, 2005, p.59).

As will be further demonstrated, the dependency school is divided into two main theories. Both emphasise strong state intervention (politics). Furthermore, they both

consider that developing countries have gone through historically and structurally different trajectories from those of advanced countries. Consequently, to them modernisation's based policy prescriptions do not suit the developing economies.

As has been indicated earlier, Korea's economic growth model revealed three main features. Firstly, it is a state-led model of economic development. The state in Korea was the major and the most important player in initiating and sustaining economic growth. Secondly, state intervention was carried out to promote private enterprises and not to replace them. Thirdly, Korea's model of economic development is dependent on the external world. It adopted an export-led growth model and depended on the world market as a source of capital and technology. Given these points, the current chapter argues that the theoretical roots of Korea's model are to be pursued in dependency theory. As such, the prime purpose of the current chapter is to validate this proposition. Its objective is to confirm the suitability of dependency theory to host development research. It mainly reviews the critiques of dependency theory and attempts a defence of a particular version of dependency. However, the modernisation theory will be revisited when we discuss the impasse argument. It also will be elaborated in the discussion of the dependency model and in the discussion on the developmental state.

Two main phases are highlighted in this discussion. The first phase confirms the existence of two main versions of dependency. It also reveals that the development of underdevelopment is the dominant version. The second phase elaborates on theory impasse. It concludes that the impasse proposition concerns the development of underdevelopment version. Secondly, the elaboration shows that modernisation theory reached a dead end as well. The discussion also entertains briefly some of ways-out

out of the impasse that have been suggested. It is also noted that further defence of dependency theory is carried out in the next chapter, that discusses the dependency and development version. The main conclusion of this chapter is that dependency and development theory has the potential to host the current research.

### **Versions of dependency:**

The brief discussion of the current section groups the writing on dependency into two versions. The first is the dependent development theory; this combines dependency with development. The second is the development of the under-development version; this contemplates a zero-sum association between dependence and the external world. Reviewing the literature on dependency is a very challenging task, as a great number of theorists have been involved in the theoretical debate on dependency. It has been argued that "surveying the dependency literatures is like being confronted with a Tower of Babel. Any attempt to give a fair account is fraught with difficulties as one is forced to be selective with respect to both issues and authors" (Kay, 1989, p.126). Before elaborating the two versions, however, an historical background of dependency theory is outlined below.

### **Dependency and Marxism:**

Until the early 1980s, the dependency approach dominated the field of development studies. Issues theorized by *dependencistas* have been at the centre of the debate among advocates of various theoretical orientations. The current section serves as a brief introduction to the next section, that highlights versions of dependency theory. Its basic argument is that all dependency versions are rooted in Marxist analysis.

Dependency analysis has been influenced by three major contributors, traditional Marxists, the neo-Marxists, and Latin-American writers associated with the Economic Commission for Latin America (ECLA) (Sanjaya, L.,1975). The concept of dependence of one group of countries on another can be traced back to Marx. He wrote on the relationship of the developed and underdeveloped countries and predicted that this relationship would finally lead to capitalist development in the backward countries. As will be demonstrated later, this point becomes a contentious issue among *dependencistas* (Munck, 1981, p.167).

Identifiable dependency theory began with the writings on imperialism. Theories of imperialism correspond to the colonial period and are concerned to account for the causes that drove capital out of core countries, whereas dependency theories correspond to the neo-colonial period and are concerned with the impact of capital penetration on backward economies. Originally, the theory of imperialism dealt with the fate of capitalist development in the core countries. This began with Hobson's research on the causes of imperialism. The objective of Hobson's work was to solve the capitalist crisis in the core countries domestically, through changing relations of production rather than through imperialism. The basic argument of the theory of imperialism is that capitalist development leads to a decline in the rate of profit and, therefore, the solution to this crisis is suggested to lie not in imperialism but in "social reforms". Marxist theorists picked up the thread and based their version of the theory of imperialism on the premise of the contradiction between capitalism and social reforms. Traditional Marxist theorists of imperialism, such as Lenin, Hilfreding and Bukharin, based their analysis of imperialism on Marx's "laws of motion of capitalism". According to these laws, capitalism moves from the "competitive" to the "monopoly" stage. The latter was considered to be the "highest" phase in the

evolution of capitalism. It represented a way out of capitalism from its ensuing crises. It was manifested in the core countries' move to imperialism. The Marxist writers also recognized other motives for imperialism, such as ensuring raw materials for their industrial growth and also securing a cheap supply of food (Hoogvelt, 2001, pp. 22-24).

The early writings of classical Marxists, such as Lenin and Trotsky, pointed to the dependent relationship between the countries of the core and those of the periphery. Lenin, according to Cardoso (1974a), "formulated with simplicity what would be the core of dependency analysis, the form of articulation between two parts of a single mode of production and the subordination of one mode of production to another" (Palma, 1978, p.890).

Lenin and Trotsky put forward the law of combined and uneven development, according to which countries develop unevenly to advanced and backward categories (Sunkel, 1972, p.519). This line of theorising is obviously in contrast to the progressive nature of capitalist development that was originally advocated by Marx himself. According to Gabriel Palma (1978), Marx and Engels considered capitalism as "a progressive system which originates in the advanced countries and expands to the rest of the world through a continual process of destruction and replacement of pre capitalist structure" (Palma, 1978, p.885).

Thus, theories of imperialism have addressed the role of capital in backward areas. However, there was no further investigation by those theorists of its real impact. The presumption was that "export of capital was the same as export of capitalist relations of production" (Hoogvelt, 2001, p.97). However, the issue has been tackled by other Marxist writers. They focused on the possible impact of capital on backward

countries' social and economic structure. Rosa Luxemburg's (1972) work might be considered the extension of the theory of imperialism to backward areas. Her "analysis of the penetration of capitalism in the colonies by merchant capital offers an insightful description of the process of destruction of pre-capitalist spheres" (De Janvry, 1981, p.10).

The path to an identifiable dependency theory was further solidified by Kuusinen's work. Otto Kuusinen (1928) argued that "it is the characteristic of capitalism that the development of some countries takes place at the cost of suffering and disaster for the people of other countries"... and that "colonization made possible the rapid development of capitalism in the west" (De Janvry, 1981, p.12).

Inspired by these ideas, Baran's work (1957)- *The Political Economy of Growth*- was considered to be the origin of the dependency school that attributed the misery of the developing world to foreign capital penetration. The dominant theme of this work is that "no third world country can now expect to break out of a state of economic dependency and advance to an economic position beside the major capitalist industrial powers" (De Janvry, 1981, pp. 10-12). These works constitute the basis for the development of the underdevelopment version of dependency theory, whereas the dependent development form of dependency adopted the original Marxist theory of the "progressive" role of capitalist development. Both versions will be further discussed. Given the earlier discussion, dependency analysis is considered to complement theories of imperialism. It is concerned with the role and the consequences of foreign capital's penetration on the configuration of the developing countries' social structure. It is argued that dependency is "the obverse side of a theory of imperialism. If an analysis of relations between developed and

underdeveloped societies that focused on the process occurring in the developed half of the equation produced a theory of imperialism, then if the attention was systematically focused on the other half of the equation – the underdeveloped societies – a theory of dependency would be produced" (Bodenheimer, 1970, p.43).

The significance of this conclusion is that dependency theory is, in fact, a Marxist-originated theory. The following discussion enables a better understanding of various versions of dependency.

### **1. Dependent Development:**

This type of dependency is considered a continuation of original Marxist thought on the progressive role of capitalist development. It contemplates the possibility of dependent capitalist development. The basic text from which this type of dependency theory originated is the work of Cardoso and Faletto (1979). A further elaboration of this theory will be carried out later in the discussion of dependency model building. However, a very brief outline of this theory is introduced here. The dependent development theory contemplates a triple interaction between bureaucrats, local capital and foreign capital as a mechanism to initiate an economic growth process. It recognizes that the third world is characterised by the “diversity” among its countries. Furthermore, the theory is distinguished by the fact that it grants domestic factors a role, along with external factors, in determining the final outcome of dependent development. No primacy is given to external factors over internal ones. According to Kay (1989, p.136), this analysis "does not derive the internal socio-political situation mechanically from external domination". Cardoso emphasises that "it is worth focusing the analysis of dependence on its internal manifestations" (Cardoso and Faletto, 1979, p.15). Kay

argued that Cardoso and Faletto's contribution is demonstrated by their attempt to link "internal development" to "external changes" and "how the world system impinges upon different Latin American countries" (Kay, 1989, p.138).

However, this version of dependency has been sidelined as a consequence of ECLA (Economic Commission for Latin America) policy prescriptions' failure. The scene was thus conducive for those who argued for a severance of relations with capitalism.

## **2. The development of underdevelopment:**

The theoretical basis for this version of dependency was laid down by Paul Baran's work, the Political Economy of Growth. However, this approach is primarily associated with Andre Gunder Frank (1967). According to him, the world capitalist system simultaneously produces development for the nations of the centre and backwardness for peripheral countries.

Consequently, the only possible way for the development of the backward nations is by severing the relations between the core and the periphery.

One further feature of this type of dependency is its emphasis on the decisiveness of external factors in determining the growth possibility of developing countries. This version explains the way in which "the economy of a certain nation is believed to be conditioned by the relationship to another economy which is dominant and capable of expanding and developing" (Chilcote, 1974, p.4). This kind of association allows economies of the centre to expand at the expense of peripheral ones.



Hoogvelt summarized this version's argument in stating that "the essence of the dependency theory is the contention that, as a result of penetration by colonial capital, a distorted structure of economy and society had been created in the colonial countries which would reproduce overall economic stagnation and extreme pauperization of the masses for all time" (Hoogvelt, 2001, p.38).

The testing field for dependency theory has been Latin America. On the recommendation of the ECLA (Economic Commission for Latin America), some Latin American countries adopted dependent development policy recommendations in the form of imports substitution policies. However, those policies failed to achieve their targets. The import substitution strategy produced, among other things, balance of payment difficulties, growing unemployment, income inequality and an industrial production of elite goods (Hoogvelt, 2001, pp. 244-249). This was, indeed, a turning point in the evolution of dependency theory. Furthermore, the failure led to the neglect of the dependent development version. On the other hand, these results seemed to confirm the development of underdevelopment analysis.

### **The Impasse:**

The discussion of the current section proceeds in two phases. The first highlights the basic element of the impasse argument and the second elaborates on alternatives. It reveals that both dependency and modernisation theories reached a dead end in their attempt to account for the emerging economic growth realities. The second shows that criticisms of dependency concern the development of under-development theory and not the dependent development version. The

discussion finally confirms that the dependent development version stands as the proper framework to account for Korea's economic development.

The above-mentioned spring for these Marxist-originated theories was short. The new realities that were demonstrated in the success of economic experiences that depended on the association with the external world seemed to be consolidating. The success in Latin America of Brazil and Chile, and, in East Asia, of Korea and other newly emerging industrialised countries, produced a challenge for the development of underdevelopment thesis. As such, these theories were subjected to fierce criticisms, the most famous of which was that of Booth (1985). His work raised various critical points with regard to Marxist-originated theories. Two issues regarding Booth's comments may be referred to. On the one hand, Booth's criticisms did not present an alternative to these theories. No "concrete way out" was offered (Schuurman, 1993, p.14). However, his works opened the door for others to suggest several alternatives. This point will be addressed later. On the other hand, Booth's main target of criticism was the dependency theory. What is important to stress here is that comments on dependency, including those by Booth, did not fully appreciate the existence of two different versions of dependency. According to Kay, "the barrage of criticisms directed at Frank has often been interpreted as a blanket condemnation of all dependency authors" (Kay, 1989, p.174). This was obviously due to the fact that Frank's version was the prevalent form of dependency at the time. The first criticism directed at dependency was the decisiveness of the external factor in determining the fate of the development of the developing countries. Booth argued that one of the deficiencies in the dependency theory is "that the social structure and politics of less developed countries are to be understood primarily in terms of the particular

nature of their insertion into the international capitalist system rather than in terms of largely domestic consideration" (Booth, 1985, p.762). The second point with regard to dependency is its inability to appreciate differences that exist within the developing world (heterogeneity). Third, dependency was criticised for calling for a breakup with core countries in order to achieve industrial development. This -as indicated- contradicted the reality in some countries. *Dependencistas*, fourth, have been further criticised for "economic" reductionism (Corbridge, 1990, pp. 623-639). This means that the complex political, social and cultural factors in developing countries are regarded as a consequence of national and international economic structure. The characterisation of dependence, fifth, was also a point of criticism of *dependencistas*. It is argued that dependence - as perceived by dependency writers - is measured by the degree of autonomy of backward nations from the core countries. If this is the case, the critics maintain that even the advanced capitalist countries are not then independent. Dependency propositions, sixth, were also questioned for not standing up to empirical testing and, consequently, proving to be inaccurate.

The basic point to be stressed here is that these criticisms mainly concerned the development of underdevelopment theory. It is interesting to note, however, that the work (Booth's) which contributed to the removal of Marxist-based theories from the development field generated alternative searches that finally pointed to the importance of reinstating these theories.

Whereas Booth referred to an impasse in development studies, Hoogvelt went even further to declare that "development studies have disappeared". This announcement was based on the assumption that Third World countries "no longer

exist ... as a unitary classificatory descriptor of economic, social and political conditions" (Hoogvelt, 2001, p.XI). However, this was rather a premature conclusion, considering the wealth of research that has been developed to search for a way out of the stalemate (Leftwich, 2005, p.573).

### **Alternative routes:**

Booth's work was noted not to have suggested alternative routes. However, this is not to ignore its positive role in opening up a discussion about a way out. Booth's work was carried forward and further elaborated by other writers, who suggested some alternatives. Schuurman (1993) summarised the basic contentions of these way out suggestions. The most relevant was the suggestion that stresses the importance of the historical comparative analysis that is based on the heterogeneity of developing countries (Schuurman, 1993, p.15). This is precisely what the current dependent development based research attempts to do through its model of analysis: that is, to conduct an historical structural analysis based on the recognition of a diverse Third World. Another suggested 'way out' of the impasse was to undertake a comparative analysis involving countries within the Third World. According to Schuurman, this alternative argues that "if development trajectories plotted for Argentina, Chile and Brazil (for example) are compared to those of the Asian NICs (Newly Industrialized Countries), we would then be presented with essential factors that influence the development process" (Schuurman, 1993, p.16). On this point, and as will be demonstrated later, the current research undertakes a comparison of Brazil's path of development with that of South Korea, in order to devise from the diversity of the two countries' experiences a unified explanatory model of triple interaction.

These general ideas for alternative ways out evolved into several approaches, the first among which was the regulation school. The approach was concerned with "how capitalism can survive" (Hoogvelt, 2001, p.115). In the context of the development process, the school emphasises that "regularities" in development processes are identified through historical analysis, comparing various experiences (Schuurman, 1993, p.17). Again, as will be demonstrated later, this is at the core of the Cardosoian historical-structural approach.

The second approach is the actor-oriented, which emphasises the role of an individual actor. The term "actor" is not confined to the individual, but includes "corporations, the church, and the state bureaucracy", whereas class is not considered as an actor. The actor-oriented approach was criticised for its "neglect of Cardoso's concept of dependent development" (Schuurman, 1993, p.18).

The third alternative is post-imperialism. It produced some guidelines with regard to international capitalism's social and political aspects. As its name suggests, it starts by criticising the neo-imperialist paradigms. Obviously, it divides those theories into two. The first sees capitalism as the cause of all problems (Frank version). The second challenges Cardoso's dependent development. The authors of this option "reproach Cardoso for underestimating the NIC's capacities for technical innovation, and for presenting an unrealistic alternative in the form of total autonomy and a state that would have to represent the will of the people". The approach considers that "neo-imperialism in general is based on the false assumption that international capitalist expansion is of necessity imperialistic in its nature". (Schuurman, 1993, p.19). Their reasoning goes as follows: first, the transnational corporations play a positive role in the host countries. Thus, there is

no conflict of interests between states, in spite of their different levels of development. Elites in developing countries form healthy associations with the TNCs. They constitute the local branch of the so-called managerial bourgeoisie. The TNCs adopt "the doctrine of domicile", according to which they take the national objectives of the host countries into their consideration. Although post-imperialism is not considered as an identifiable development theory, it did produce some important insights about the functioning of multinationals. Furthermore, their characterisation of Cardoso's version needs to be qualified as this version became more sophisticated as a result of further work. Furthermore, despite its criticisms of "the historical dependence school of Cardoso et al., the strength here was the connection on a national level of an economic analysis to an analysis of the variety in class alliances and class positions" (Schuurman, 1993, p.20). Most relevant to the current work is that post-imperialism is mainly concerned with the transnational corporation as a form of foreign investment. As will be explained, Korea represents a different type of dependency situation, in which foreign loans were the prominent form of foreign capital.

In conclusion, what is clear from this brief discussion is that the suggested alternative approaches raised issues that were mostly envisaged in the dependent development version of dependency. Furthermore, the fact that these alternatives did not attract further works points to their limited explanatory potential.

### ***Modernisation Deadlock:***

It has been demonstrated that from the 1950s to the late 1970s the dominance in development research was secured by dependency theory. However, the deterioration in the economic performance in some developing countries, as well as the success of others which engaged with the external market, contributed to the downfall of dependency theory. These conclusions were "to put wind in the sails of the neo-classical counter- revolution" (Leftwich, 2005, p.579).

As such, beginning from the mid-1970s, modernisation theory started to gain increasing predominance. However, data on economic realities since the 1980s up to the new millennium challenged the viability of "the neo-liberal reforms". The first amongst these was the clear manifestation of state efficiency in interfering in market performance, as was demonstrated by some East Asian states' success. This point is further elaborated on in the coming discussion. The second was the deterioration in the overall economic condition of many developing countries. This last reality is summarised by Schuurman(1993,pp.9-10) in the following:

- Developing countries need 150 years to achieve 50 per cent of developed countries per capita income.
- Developing countries are suffering from severe debt problems "up to their ears".
- These countries are struggling with continuous problems in employment, housing, human rights, poverty and landlessness.
- According to the UNICEF, the poor in developing countries lost 10 to 15 per cent of their income between 1983 and 1987.
- The share of developing countries in the world's income deteriorated to 5.6% in 1989 from 9.5% in 1987.

- According to a World Bank estimate, the income ratios between rich and poor countries continued to deteriorate. It was 5:1 200 years ago and it dramatically increased to 20:1 in 1960, 46:1 in 1980 and to 60:1 in 1989.\*

Thus, "the trickle-down process had failed absolutely" (Schuurman, 1993, pp. 9-10). The major conclusion is that "from the end of the twentieth century anomalies were beginning to accumulate which could not be contained within the neo-liberal orthodox paradigm of development theory and policy" (Leftwich, 2005, p.587). It is obvious that the modernisation theory is unable to account for current realities in the development field. Given this reality, theorists on the modernisation front have worked aggressively to respond to challenges to neo-liberal ideas. Data on overall economic performance (at the international level) carried out according to a neo-liberal agenda have been disappointing. Also, the success of some states in developing countries posed another challenge to the neo-liberal market-oriented policies. The review of the neoliberal works revealed that they recognised the centrality of politics (state) in the development process. The work began with attempts to identify the causes of failure of reform programmes. Dollar and Svensson conducted research into more than 200 programs (Leftwich, 2005, pp. 588-590).

Research was also carried out by the IMF. It involved an analysis of some 170 programmes between 1992 and 1998. The conclusions of both confirmed the importance of domestic politics. This means that reform programmes carried out according to neo-liberal policies had not recognised the importance of such social and political aspects. Furthermore, in the year 2003 the World Bank admitted the

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\* In his article, Schuurman attempts to refute neo-liberal arguments regarding these data.



positive contribution of (state) institutions in reducing poverty and achieving sustained growth rate and in its 2006 report the Bank "have acknowledged the centrality of politics in a manner that would not displease even Marx" (Leftwich, 2005, p.592).

Hence, the major conclusion is "that the definition and especially enforcement of rules for developmental purposes ..... required an effective state and further, that the distribution and disposition of political power in society is a key determinant of enforcement success and the emergence of high-growth states is therefore as much a task of political as it is of institutional engineering". It is also surprising to see "how close much of it is to what used to be dismissed as Marxist political economy" (Leftwich, 2005, p.594).

This conclusion is a major turning point, with considerable impact on impasse literature. Neo-liberal theorists came to acknowledge the importance of the state. Earlier it was revealed that the neo-Marxists (neo-statists) for their part envisaged a "progressive" role for capital in fuelling the development process. The question that remains is: what is the theoretical framework that accounts for this reality?

We have seen earlier that the ways out of the impasse raised issues that were envisaged in dependency and development theory. The viability of dependency and development theory as a host for post-impasse development researches was emphasised by Schuurman. He maintained that "the analytical framework of post-impasse development theory would have to involve the relationship between power, actors, and structure, which subsequently would have to be substantiated at the various analytical levels using historical comparative analysis" (Schuurman, 1993, p.29).

Hence, the discussion just concluded indicated that dependency theory is the most viable approach to account for development research because it escapes the criticism that dependency theory treats the third world as homogenous. Secondly, dependency theory envisages the historical structural analysis as the mechanism of its investigation. Thirdly, it advocates an analysis that combines both the state and free market principles. It also considers foreign capital as a principal ingredient in the economic growth process. In the words of Hoogvelt, there is a need "to uncover the precise interplay between external factors and internal social structures in order to explain the divergence in national historical trajectories" (Hoogvelt, 2001, pp. 52-53).

The next question is this: what is the analytical model that corresponds to this form of theory?

## **Chapter Three**

## **The triple interaction:**

The previous chapter presented the theoretical background to the current research. It reviewed the existing literature on development research. The chapter advocated the plausibility of a Marxist-based dependency approach to account for the current reality of development experiences; namely, it was indicated that dependency theory (Cardosian version) stood as a proper candidate to account for current development concerns. The objective of the current chapter is to build a dependency model, based on the said theory, in order to account for Korea's economic development.

Before embarking on this, however, it is important to review various explanatory models of Korean dependent development. Advocates of each development paradigm (modernization-dependency) have attempted to demonstrate that Korea's experience does, indeed, support their theoretical proceedings. The review argues that the dependency and development model might represent a compromise approach. It combines the basic concepts of both schools. It emphasises the politics in the Marxist-based theories and, at the same time, recognises the market-oriented system of the neo-liberal theory.

## **Modernisation view:**

The core of the modernisation view is the neo-liberal prescriptions of the market-oriented system. As mentioned earlier, the modernisation approach was a post-colonial theory for the development of developing countries. Its solution is not confined to the economic sphere but argues that "less developed countries should model their social and political structures after the examples of the West" (Hoogvelt, 2001, p.217). Korea's economic performance can be attributed, according to the neo-

liberals, to its adherence to market system principles. It was argued that Korea "pursued a liberal market oriented development strategy" (Richard, 1988, p.68).

On this issue, two types of research on Korea's trade system are invoked to substantiate the above conclusion. The first set of research involves a general analysis of Korea's trade measures for the years from the mid to the late 1960s. The second involves a "highly disaggregated protection analysis" adopting a "direct comparison survey". Richard Lueddle-Neurath (1988) contested the finding of these two sets of studies. On the first, he noted that until May 1965 the changes in the trade regimes resulted in a level of openness equal to that achieved at the beginning of the 1960s. Also, the writer argued that liberalisation policies were, in fact, counterbalanced by a real enlargement of provisional special customs duties law. More importantly, however, import liberalisation measures were held back by the fact that there existed a strict foreign exchange control. The claim of a liberal import regime was also attributed to the change in the import list system from positive to negative feature. This argument was also contested, because the two listings did not apply the same classification procedures. Furthermore, the switch in the import list was not implemented fully. And, finally, the impact of this switch was, in fact, limited. The change in total imports, according to official data, reached in 1968 a mere 4.6 per cent, well below the 20 per cent level mentioned by advocates of the liberal view. The second type of research was that of Westphal and Kim (1975), who conducted a micro-study in 1968 of Korea's import regime, using "direct price comparison" instead of "legal tariffs and quantitative restrictions (QRs)." The study provided "an empirical foundation for a liberal view of Korea's import policy". However, this study was considered to involve "formidable" difficulties (Richard, 1988, pp. 68-72).

The neo-liberal explanation of East Asian success in general is, secondly, enhanced by the finding that their economies “had been relatively free of distortion in capital, labour, technology and other markets” (Henderson, 1993, p.201). However, according to Henderson (1993), in his work on Taiwan, Robert Wade (1990) dealt a devastating blow to neo-classical reasoning. Wade distinguished between two versions of neo-classical interpretation. The first is the “free market (FM)”. It argues that the success of East Asian countries can be attributed to the fact that their state intervention was confined to macro-economic policies. The second is the “simulated free market (SM) version”, through which the state seeks to establish a "neutral" trade system through balancing "market protection" with "export" enhancement. Wade, according to Henderson, criticised the neo-classical interpretations on two grounds, first, the lack of analysis of the years before 1958 and second, the fact that the role of the state is absent in their analysis from the 1960s (Henderson, 1993, pp. 203-205).

However, the neo-liberal position was reproduced and reconfirmed by the World Bank report of 1993 entitled: "The East Asian Miracle: Economic growth and public policy". The Bank's report, according to Jene Kwon, "makes an ‘all-out’ effort to assert that East Asian economic success has nothing to do with government" (Kwon, 1994, p.635). Kwon disputed the Bank's argument that “the degree of market distortion has been minimal in East Asian economies so that prices are not too far out of line with free market norms”. Three challenging points were presented. First, the fact that “rapid growth of capital stock” was associated with “massive investment subsidies granted to business”. Second, the market was highly distorted by a “low

interest rate policy”. And, third, the fact that “the role of tax incentives in Korea’s resource allocation is well documented” (Kwon, 1994, pp. 638-641).

Since then, however, a major gradual shift in the neo-liberal position- as represented by World Bank reports- has been noted. The World Development report of 1997 entitled the *State in a Changing World* indicated a turning point in this regard. In sharp contrast to its earlier position, the Bank recognised the prime role of the state (institutions) in furthering development through supporting the market system, a position that was echoed again in the 2002 World Development report. As mentioned earlier, the Bank finally "acknowledge the centrality of politics [state] in a manner that would not displease even Marx" (Leftwich, 2005, p.592).

### **The neo-statist view:**

The move on the part of the neo-liberals toward the admission of the role of the state was coupled with a move on the part of neo-statists to ascertain the importance of market forces in promoting development in the developing world. This move was represented by a neo-statist approach. The governed market (GM) concept envisaged a recognition of the shared vitality of both the market and state in economic development. The neo-statists sought to demonstrate that significant economic growth was produced by the combined forces of state and market. They, however, still emphasise the state's heavy involvement (Henderson, 1993, p.203).

The neo-statist model emerged from the late 1970s. However, the landmark publication of this approach was in 1985 with “Bringing State Back In, edited by Peter Evans, Dietrich Rueschmeyer and Theda Skocpol” (Mins, 2001, p.1026).

Earlier in this review, Wade (1990) disputed the neo-classical argument of both the “free market (FM)” and “simulated market (SM)” versions. Based on his work on Taiwan, Wade introduced a state-based alternative, referred to as the “governed market (GM)” theory. The theory assigns a central role to the state in shaping market mechanisms. According to this argument, the state’s role is directed at establishing “(a) very high level of productive investment, (b) more investment in key industries ... and (c) greater exposure of industries to international competition but not on the domestic market” (Henderson, 1993, p.204). This brilliant work by Wade, however, lacks the structural- historical view on the formation of the authoritarian state.

Amsden’s *Asia’s Next Giant* (1989) produced a “definitive account of how a strong state in league with an oligopolistic, industrial structure was able to forge an economic powerhouse” (Henderson, 1993, p.208). However, Amsden’s work, according to Henderson, “has no description of how the institutions responsible for governing the economy operate, and only a limited analysis of why and how the state has been able to construct its particular version of plan nationalism”. Furthermore, according to the current research her work also lacked the depth of structural analysis that produced the strong state. She suggests only “that the state’s control over the economy was a product not of the capacity of particular policy makers and economic planners, but rather of the fact that for historical reasons (land reform, ...etc) there was an absence of the class forces that could prevent it” (Henderson, 1993, p.210).

John Mins was another who contributed to this approach. He noted that the neo-statists, especially in the writings of “Linda Weiss, John Hobson and Alice Amsden”, dealt with state involvement as a strategy that "can continue indefinitely". That is to

say, this approach did not account for the case in which the state in South Korea “started to behave less like developmental states – becoming less interventionist”. Furthermore, the model did not answer the question of why South Korea’s success “was not repeated in most other developing countries” (Mins, 2001, p.1026).

Mins worked to complement the neo-statist approach by adding the historical-structural dimension to its analysis. His analysis sought “an appreciation of the varied forms of state historically created by differing class configurations, and an awareness of the dynamics of the NIC state and its changing powers and possibilities as the balance of class forces shift” (Mins, 2001, p.1026).

He posed a very relevant question: “How was the Park regime able to succeed in this massive industrial transformation of South Korea?” He argued that the state in Korea retained a strong autonomous position vis-à-vis other domestic classes. This autonomy should be understood through analysing “the historical trajectory of the south Korean state and its relationships with the social classes of south Korea”. State autonomy here refers to the “inability or unwillingness of the dominant economic class to take state power directly” (Mins, 2001, p.1029).

Mins’ (2001) work certainly represented a positive contribution to the neo-statist view by raising the historical-structural dimension. However, the reality with regard to the developmental state contradicted his predictions of its demise. The developmental state survived all major shocks and setbacks and emerged as a sound player. The state in Korea weathered the crisis of 1997 and successfully steered the economy in the globalisation era. That is to say, Mins’ analysis did not account for the state’s success



in the globalisation era. The cause of this shortcoming, the present author believes, was due to the fact that his analysis focused on the interplay between the state, labour/peasant movement and domestic capital. Indeed, the labourers as a class assumed no effective participation in the political process, as labourers were suppressed throughout most of the early years. They started to influence policies only after the 1980s liberalisation drive. Furthermore, no structural analysis was conducted into Mins' work.

The discussion has so far indicated that a compromise position is emerging between the two main views on Korean development. It is one that reconciles the state's role with market principles. The next section argues that a dependency-based triple interaction gives the state the prime role in development and, at the same time, recognises the vitality of the market system. The mechanism revolves around the interplay of state bureaucrats, foreign capital and domestic capitalists. The section below seeks to trace the build-up of this model.

### **The historical-structural analysis: (Dependency Model)**

The historical-structural model originated in the pioneering work of Cardoso and Faletto on “dependency and development in Latin America” (Cardoso and Faletto, 1979). The consolidation of such a model went through four stages. The current section reviews these phases. The review emphasises three issues. First, it seeks to identify the basic features of this model. Second, the elaboration highlights the modifications and contributions that promoted the build-up of this model. Third, throughout this elaboration the contributions of the current research are also emphasised. Before doing that however, the discussion begins by highlighting

Cardoso's responses to modernisation theorists and to the critics of dependency theory.

In building up this theory, Cardoso criticises the "essentialism" and the "teleological" aspects of the modernisation theory. According to him, "in almost all theories of modernization it is assumed that the course taken by political, social and economic systems of Western Europe and the United States foretells the future for the under - developed countries" (Cardoso and Faletto, 1979, p.xvi).

Similarly "economism" was also rejected by the current approach. According to this, the evolution of domestic social structures was not solely conditioned by the "logic of capitalistic accumulation". On the contrary, the structural interaction between external and internal forces is based on "interests between local classes and international ones". In fact, it goes even further than this as these links "are challenged by local dominant groups and classes". The model of analysis is to take into account other social classes, such as middle class and labour force. Hence, the internal social forces that are involved in this model include the domestic dominant class (including bureaucrats), middle class and workforce. External forces are specified as "multinational enterprise, foreign technology, international financial systems, foreign embassies, foreign states and armies" (Cardoso and Faletto, 1979, p.xvi).

As mentioned earlier the most important and relevant criticism is that dependency theory does not account for the reality that developing countries are diverse. Contrary to this, however, Cardoso and Faletto's work advocates the "diversity" feature. They criticise other approaches for ignoring the "diversity" dimension. According to them,

in those approaches "the specificity of each situation of underdevelopment has little value". Hence, what is important and relevant is "to study the [various] historical-structural contexts in which such a process is generated" (Cardoso and Faletto, 1979, pp. 11-13). In response to the previously raised criticism that dependency is measured by the degree of the country's dependent on the outside world, Cardoso's work identifies the dependent economy as one in which "the accumulation and expansion of capital cannot find its essential dynamic component inside the system" (Cardoso and Faletto, 1979, p.xx). In other words, developing economies "remain dependent in a very specific form: their capital goods production sectors are not strong enough to ensure continuous advance of the system in financial as well as in technological and organizational terms" (Cardoso and Faletto, 1979, p.xxi). As with regard to the impossibility of a dependent development, the cardosian version argues that "a real process of [capitalist] dependent development does exist in some Latin American countries". This is a significant point of departure from those "who expect permanent stagnation in underdeveloped dependent countries". As such, this version escapes the criticism of "epistemology", according to which *dependencistas* were accused of closing their eyes to the reality of successful economic development (Cardoso and Faletto, 1979, pp. xxi-xxiv).

### **The triple interaction:**

The core feature of this version of dependency model is the triple interaction. Cardoso argued that the associated dependent development in Brazil was produced by an interaction among foreign capital, local capitalists and the state (public). According to him "the simultaneous and differentiated expansion of the three sectors of the economy: the private national, the foreign and the public" produced this type of development (Cardoso and Faletto, 1979, p.31). Evans continued the process of

building this model, which evolved from a triple interaction to a triple alliance interaction form, as is demonstrated in the next section.

### **The triple alliance:**

Evans' (1979) work on the dependent development of Brazil represented the second phase in the evolution of the dependency model. His work was a step forward towards building an identifiable dependency model. It is a continuation of the just-elaborated Cardoso's historical-structural analysis. The main contribution of this work was the concept of triple alliance among states, local capital and foreign capital.

As mentioned earlier, Cardoso wrote about the interaction between local and foreign capital. Evans investigated the form of association between the three components of dependent development (foreign capital, local capital and state bureaucrats). This examination is based on the same assumptions developed by Cardoso.

Evans' work produced a qualitative contribution to the dependency model. However, his work lacked an historical-structural analysis. It sought to analyse dependent development in Brazil on the basis of an alliance interaction of state, local capital and foreign capital. However, the process of class formation was not analysed. Such a process will be conducted in an upcoming chapter. The purpose of the said discussion is to consolidate the conceptualisation of the triple alliance. Furthermore, the model needs to accommodate a dependency situation which is associated with more diversified foreign capital. Multinational corporations are no more the sole embodiment of foreign capital. Developing countries are dependent on other types of foreign capital, such as foreign aid, foreign loans, foreign technology and financial capital. Furthermore, future work should include other emerging classes, such as the

workforce and other civil society associations. The international political economy (IPE) aspects have also to be taken into consideration if the model is to account better for dependent development.

### ***Dependency model and IPE:***

Lim's (1985) work on Dependent Development in Korea represents the third phase in the consolidation of the dependency model. The study was the first *dependencistas* work on Korea. It sought to examine the mechanisms of dependent development, with emphasis on the close interaction between the state, foreign capital and local capitalists under the US security umbrella (Lim, 1985, pp. 26-29). The significance of this work was manifested in two points. First, because it focuses on Korea, it represented an extension of *dependencistas* work to East Asia. Second, the research further consolidates the dependency model by raising issues of international political economy (IPE).

Lim's work tried to merge these geo-political considerations with the main dependency agents: state, domestic capital and foreign capital. His work still lacked the historical-structural aspect of dependency analysis.

### ***The triple-interaction-revisited:***

The discussion of the dependency model has confirmed various issues. First, it has revealed that the model's analysis revolves around the interaction of state (bureaucrats), domestic capital and foreign capital. Second, the model recognised the diversity within the Third World countries. Third, the model accommodated aspects related to international political economy (IPE). Fourth, the dependency model so far

lacked the application of the historical-structural dimension in research on both Brazil and Korea.

The fourth phase in the evolution of dependency analysis was the article by Peter Evans entitled "Dependency and the state in Recent Korean Development" (Evans, 1987, pp. 202-207). The article represented a revisit to an earlier theorisation of the dependency model. Indeed, the work proposed guidelines towards a more mature model. The importance of this article is that it strengthened the earlier Lim attempt at bridging *dependencistas*' work on Latin America with the East Asian counterpart.

Most important was the call to re-examine the position and role of dependency agents. As indicated earlier, the model in its original formulation entailed an alliance form of interaction among dependency agents. The current article revealed that the state in Brazil appeared less strong than its counterpart in Korea. However, again this conclusion needs to be substantiated through an historical structural analysis.

To conclude, the discussion in this chapter elaborated a dependency mechanism that is associated with dependency theory. The model revolves around triple interaction among the state, foreign capital and domestic capitalists. It applies an historical structural analysis to identify the process of class formation. Furthermore, the suggested model contemplates an analysis that takes into consideration other social forces, such as labourers, students and other civil society associations. The remaining question is this: does the current model survive globalisation imperatives? This is the subject of the next chapter.

## **Chapter Four**

### **Globalisation:**

The previous elaboration produced two main results. It first contested the view that development studies are facing a theoretical impasse. Second, the discussion consolidated the dependency model. The model involved an interaction of bureaucracy, domestic capital and foreign capital as the prime development agents. The remaining task is to identify the actual form of this triple interaction. We knew that the triple alliance form was associated with Brazil's economic development. Given this finding, the research proposes the triple non-alliance to be the form that accounts for Korea's economic growth pattern. However, before proceeding to substantiate this proposition, it is important to reflect on globalisation's impact on the triple interaction, that is, to answer the following question: is the triple interaction still a valid mechanism in the globalization era? And, because the state is the core element in this model, the discussion will focus on globalisation's impact on the state's ability to influence the other components of the triple interaction. The discussion begins with identifying globalisation.

### **Identifying Globalisation:**

Globalisation is defined as "the expanding scale, growing magnitude, speeding up and deepening impact of interregional flows and pattern of social interaction. It refers to a shift or transformation in the scale of human social organization that links distinct communities and expands the reach of power relations across the world's major regions and continents" (Held and Mc Grew, 2004, p.4).

### ***Globalisation and the state:***

The current discussion argues that the state retained its relevancy as a sound active player. Two points are advanced to substantiate this proposition. First, globalisation unleashed forces in opposite directions. Globalisation "from above" was counteracted by a globalisation "from below". The net result was almost neutralisation of globalisation's impacts on the state. Second, globalisation allowed the state to develop an adaptability capability and transforms its role in a manner enabling it to conform with the newly emerging realities without losing its relevancy. The current discussion identifies globalisation forces and examines their implications for the state. Next, the analysis seeks to reveal the way in which the state adapts to globalisation challenges.

Globalisation is impacting on the state through enhancing agents of governance, both state and non-state. Governance in one encompassing definition includes the state as one of its components. Accordingly, it "embraces governmental institutions, but also subsumes internal, non-governmental mechanisms whereby those persons and organizations within its purview move ahead, satisfy their needs, and fulfill their wants" (Lipschutz, 1997, p.301).

Because of globalisation, governance retained a global dimension. Thus the term global governance reflects "a triangular affair with complex relations between national governments, multinational institutions, and civil associations" (Scholte, 2000, p.132). Next, we shall examine each constituent of global governance and reflect on its impact on the state.



***Multinational institutions:***

These institutions include multinational corporations, (MNCs), international institutions (WB, IMF, WTO), United Nations organisations and international agencies, such as credit ratings corporations. These bodies are said to be a vehicle of globalisation. They seek to remove barriers to free movement of capital and goods. They were referred to as "globalisation from above" (Falk, 1998, p.987). Based on this, "it is argued that current change constitutes a change in global capitalism of abiding significance, making the retreat of the state inevitable and irreversible" (Amoore, 1997, p.252). Accordingly, the globalisation drive intervenes with the state's ability to carry out the normal function of controlling markets, that is, to conduct a "unilateral exercise of comprehensive macroeconomic policy". The state's power is also challenged by the globalisation-based movement of the "tangible forms of global capital", as corporations can easily "frustrate" state regulations and relocate their production bases in various parts of the globe (Scholte, 2000, p.373). However, this view could be challenged on the basis that these enhanced non-state agents of governance are "not subject to the usual forms of public accountability" (Devetak and Higgott, 1999, p.569).

The globalisation "from above" proposition is further challenged. Leo Panitch sees no real threat to the state from multinational corporations. According to him, "the concentration of power by transnational capital did not take power away from the state; rather the state intervenes precisely in this very concentration" (Panitch, 2000, p.329). Similarly, the role and activities of governance agencies and regulatory associations by no means constitute a threat to state, because "major nation states have agreed to create them and confer legitimacy on them by pooling sovereignty"

(Hirst and Thompson, 2000, p.311). With regard to a threat to the state from capital movement, Scholte sees "little indication that trans-border capital and the state form a contradiction and every sign that they are complementary" (Scholte, 2000, p.371). Furthermore, according to Amoore, "key wholesale financial indicators ...., illustrate that, contrary to the popular vision of seamless global markets, most economic variables remain firmly national in orientation" (Amoore, 1997, p.258). In another financial dimension, Linda Weiss, argues that "global finance has not exerted the uniformity debilitating efforts so often claimed for it" (Weiss, 2000, p.439).

### ***Civil Society:***

The civil society associations are another vehicle through which globalisation is said to reduce the relevancy of the state. It is argued that "the power relation between state and civil society suggests that the state should rest upon the support of an active, self-conscious and variegated civil society and should in turn sustain and promote the development of constructive forces in that society" (Cox, 1999, pp. 452, 455). The mutual association between state and civil society points to the possibilities that globalisation impacts on each in an equal manner. That is, if civil society is enhanced by globalisation forces, this necessitates a similar effect in the state as well. Owing to globalisation, the term global civil society emerged, where the concept of civil society embraces "those, political, cultural, and social organizations of modern societies that are autonomous from the state but part of the mutually constitutive relationship between state and society". Global civil society "extends this concept into the transnational realm, where it constitutes something along the lines of a regime composed of local, national, and global non-governmental organizations" (Lipschutz, 1997,p.289).

On the impact of global civil society on the state, there exist three positions. The first argues that global civil society associations do enforce "globalization from above" at the expense of the state. It is conceivable that, because of globalisation, civil society associations are empowered "to participate politically and to counter the abuses of state power" (Hurrell and Woods, 1995, p.540). However, this trend of empowering civil society groups is hindered by the accountability principle. In order to be legitimised as acceptable agents of interference, these associations "have to develop transparent, accountable and participatory systems of decision making" (Devetak and Higgott, 1999, p.580). The second view on this issue is what is referred to as the "radical project". It sees globalisation as empowering peoples rather than corporations. Globalisation, it is argued, establishes "the necessary condition which will empower people to take control of their own lives and to create communities based upon ideas of equality, the common good, and harmony with the natural environment" (Held and McGrew, 1998, pp. 565-566). This view is rather a utopian one. Every indication reveals that global changes are driven through an institutionalised association, be it the private sector, global organisation or the state. The third view in this debate is that globalisation generates forces that strengthen the state rather than weaken it. Because of the adaptability feature (discussed later), the state is not expected to be static and not to move to adapt to globalisation. Hence, as a result of globalisation, states "are learning" how to "secure their (associations) support or at the very least neutralize their opposition" (Devetak and Higgott, 1999, p.579). As mentioned earlier, globalisation could equally "strengthen the governance capacity of both the state and civil society". Furthermore, these civil society organizations "are the product - direct or indirect - of state action" (Hurrell and Woods, 1995, p.540).

Above all, the fact is that the "state still proposes and disposes of international agreements and NGOs – as in their involvement in the activities of international institutions - need governmental sponsorship, or at least governmental acquiescence to influence" (Devetak and Higgott, 1999, p.581).

The global civil associations (NGOs) are believed to be strengthening the state indirectly through constituting a "bottom-up-movement in civil society as a counterweight to the hegemonic power structure and ideology" (Cox, 1999, p.401). Thus, the overall conclusion is that global civil society groups neutralise globalisation's impact on the state if not strengthening the latter position vis-à-vis globalisation from above.

#### ***United Nations agencies:***

Globalisation forces encouraged a more interventionist role for UN agencies, transcending the state's sovereignty. However, it is argued that globalization supported the UN role in ascertaining the state's authority. And sometimes the UN agencies work to rebuild states rather than weaken them. The UN intervention does indeed contest the "state's traditional monopoly of governance" (Higgott and Payne, 2000, p.xvii). However, the end result "is not to diminish sovereignty of the state, rather to assist its "adaptation to new circumstances". For example, peace keeping agencies help the state to carry out "its necessary functions of statehood in modern international society". Another example is the UN intervention to promote democracy. As such, the UN involvement in state buildings represents an "appropriate counter-strategy to globalization" (Taylor, 1999, pp. 71, 86, 88).

The previous discussion revealed that the forces unleashed by globalisation did not lessen state's role and authority. It showed that, in spite of globalisation, the state appeared to have retained its relevancy as a sound, strong and active entity. Next, we shall discuss the globalisation impact on the state itself.

***The state:***

The third pillar in global governance is the nation state. The state "has been the exclusive legitimate subject of international relations in the Westphalian system, the highest point of decision and authority" (Devetak and Higgott, 1999, p.581). The previous discussion attempted to evaluate the impact of other constituents of global governance on the state. It opted to refute the proposition of declining state relevancy. This discussion treats the state as a member in the global governance and tries to unravel the way in which the state interacts with globalisation imperatives. The current discussion associates itself with the view that "contemporary globalization is reconstituting or transforming the power, functions and authority of the nation state". It leads to "the emergence of a post-Westphalian world order in which the institutions of sovereign statehood and political community are being reformed and reconstituted" but not diminished (Held and McGrew, 1998, pp. 545-546).

To substantiate this point it is argued that the proposition of state's demise is based on several contested assumptions. First, the state was treated as an insulated, powerless entity, not able to interact with globalisation changes, whereas the fact is that "what globalisation actually confronts is an equally powerful interlinked system of states, which through their social interaction in accordance with the characteristic rules and processes of this system learn from and confirm to each other what it means to be a state" (Armstrong, 2000, p.530 ). The second challenged assumption is the one that

"seriously underrates the variety and adaptability of state capacities" (Weiss, 2000, p.428). This point is elaborated later in this section. The third point in challenging the state demise assumption was that it exaggerated the state's authority that was said to be taken away as a result of globalisation, whereas the fact is that "there is little compelling evidence that the state has ever had the sorts of power that it allegedly has been forced to relinquish" (Weiss, 2000, p.438). The fourth point in this regard is that it is "neither new nor unusual for the state to face challenges and for it to rapidly adapt to such development" (Strange, 2000, p.275).

Next, defenders of state relevancy advance the fact that states "are deeply implicated" in the globalisation process. It assumes a central role in "institutionalizing of governance actors", regional or global (Held and McGrew, 1998, p.561). States are relevant not as sole governors but "because they are key practitioners of the art of government as the process of distributing power, ordering other governments by giving them shape and legitimacy". They are important in a new role that is "to make bargains stick, upward because they are representative of territories and downward because they are constitutionally legitimate powers". Furthermore, states are argued to respond to globalisation through the mechanism of adaptation. Through this adaptability feature the state is able to preserve and exercise its role and authority in new forms. The state resorts to external alliances as a way to adapt to globalisation pressures (Hirst and Thompson, 2000, pp. 311, 312). By doing that, states ensure "that the national development trajectories are sustained" (Amoore, 2000, p.258).

The proponents of state relevancy move to the offensive by arguing that globalisation "will continue to heighten rather than diminish national differences in state capacity

and the accompanying advantages of national economic coordination" (Weiss, 2000, p.451). The proposition of a more involved state is supported by data on OECD. According to Evans, "Roderick found a quite strong correlation among the OECD countries between government expenditure (as a share of GDP) and exposure to trade: countries that are more exposed to trade have bigger governments" Evans, 1997, p.407). Furthermore, figures on spending and deficits in OECD countries "are more consistent with an argument which holds that globalization increases the demands on governments to fashion market dislocations" (Garret, 2000, p.406).

Peter Evans presented the strongest argument for a more involved state. According to him, "existing cross-national statistics suggest that greater reliance on trade is associated with an increased role for the state rather than a diminished one". And that "a look at the nations that have been most economically successful over the last 30 years suggests that high stateness may be competitive advantage in a globalized economy". The logical explanation was that "higher trade shares increase a country's vulnerability to externally induced traumas; a larger public sector provides a protector counterweight" (Evans, 1997, pp. 406-407).

Thus, the main conclusion is that globalisation did not take away state power and relevancy. As such, the current dependency model is a valid one. The next chapter focuses on the developmental state: that is the form of state associated with the dependency model. Its prime objective is to identify the developmental state's form of intervention.

## **Chapter Five**

### **The Developmental state:**

The research has so far arrived at two main conclusions. First, it consolidated a hypothesised dependency model that was proposed to account for Korea's economic growth pattern. The model revolves around triple interaction of state, local capital and foreign capital. The model envisages a prominent role for the state in this dependency interaction. Second, the study demonstrated that the said model withstood globalisation and is relevant to host development research. The current chapter is designated to discuss the developmental state. Its objective is to identify the form of state intervention in the economy, and the way it relates to the triple interaction.

The chapter starts by reviewing literature on advanced state intervention in the market. The literature on the developing state on this subject is considered as an extension to that of the developed state.

### **I. The developed state:**

The analysis of the advanced state's intervention in society in general and the market in particular evolved in three phases. Evans has eloquently reviewed the literature on the state's intervention in the market (Evans, 1995, pp. 5-42). The first phase started with the neo-classical theorists, who conceived the state's involvement as "essential" to enhancing economic development. However, its role was also conceived to be "minimal". Accordingly, no serious attention was paid to analysing the state's role and nature. It was treated as an "exogenous black box" and, accordingly, not worth internal analysis.



However, in the second phase, this view was altered by the neo-utilitarian political economists. They looked at the negative impact of the state's involvement in the economy. As such, the state became an important subject for analysis, examining its internal workings with a view to securing smooth economic proceedings. For such an analysis, they applied the mechanism of "individual optimisation". Their model of the state revolves around the idea that the state's "incumbents" will always be guided by the motive of maximising their interests, with disregard to "the common good". To continue enjoying their control of the state, the incumbents seek political supporters by providing them with incentives. Consequently, these "unproductive" practices prevail in the economy, leading eventually to economic inefficiency and decline. Thus, while the neo-utilitarians disagree with the neo-classicists on the importance of analysing the state, both come to the conclusion that the state's involvement in the market should be minimised. One of the important conclusions of this theory is that the state is no more "a neutral arbiter". The second related important conclusion is that the neo-utilitarian view brought into focus a state-society association. Its contribution "was an invaluable stimulus to reevaluation of the institutional nature of the state" (Evans, 1995, p.24).

The third phase in the evolution of the theory of the advanced state is that of Max Weber's contribution to state theory. The importance of Weber's view lies in the fact that he moved the analysis of state-society relations to "the issue of what kind of institutional structure the state must have in order to be an effective counterpart to private entrepreneurial groups". Consequently, bureaucrats assumed an important role in capitalist expansion. For this bureaucratic class works as a state

arm to “support markets and capital accumulation” (Evans, 1995, p.29). Consequently, the state’s involvement exceeds that of neutrality or minimality. The advancement of capitalism is strongly related to state bureaucrats’ intervention.

Weber, according to Evans, argued that “capitalism and bureaucracy have found each other and belong intimately together”. In order to undertake this function, efficient bureaucrats should be rewarded to a degree that they consider “pursuing corporate goals as the best way to maximize their individual self interests” (Evans, 1995, p.30). His contribution was to analyse the internal working of the state. According to this view, the state (bureaucrats) is essential for the advancement of capitalism. Consequently, state bureaucrats now play an essential role in stimulating economic development.

However, the state as identified by Weber is “an essential adjunct to private capital but not a transformative agent in its own right” (Evans, 1995, p.30). Its prime interventionist role is to create a conducive environment in which the private sector may operate. Indeed, the “transformative” role is a mission of the developmental state, which is addressed next.

## **II. The developmental state:**

The form of state intervention just described was related to advanced states, whether the original industrialisers or late industrialisers. The distinguishing feature of the said state was that it considered the private sector as already existent. Hence, the state assumed the role of creating a conducive environment for the private sector to grow. However, developing countries’ state formation has

followed a “trajectory” that differs from that of the developed world. Its existence has been shaped by the colonial and neo-colonial evolution of capitalism. Consequently, these countries have been faced with a formidable task. They needed to transform their societies in a manner that would enable them to establish domestic capital accumulation. Indeed, they were faced with a mission to transform their economies and change their position in the already-established international division of labour (IDL). This kind of mission involves heavy, and deeper, state intervention. Therefore, the basic difference between the developed state and the developmental state is that the latter assumes a transformative role, that of initiating and sustaining a growth process.

Hence, the current discussion reviews writings on developmental state intervention in society (economy). The objective is to identify the type of intervention that is undertaken by the developmental state. It is also the aim of this section to explain the mechanism through which the intervention is carried out.

### Developing state-society relations (Types of state intervention):

To recall, the earlier discussion of advanced state-society relations confirmed that state intervention in the market to enhance the activities of private entrepreneurs was minimal. The state in the original industrialisers and the late industrialisers assumed the role of creating a conducive environment. The state assumed no transformatory objective. It was “adjunct” to market entrepreneurs.

However, the state under discussion is a developmental state that adopts a transformatory economic project. Hence, our discussion undertakes a review of the literature on the developmental state’s task to change its society in order to determine

state intervention conducive to initiating sustainable economic development. That is, it attempts to identify the kind of state intervention that is necessary to produce the required change. The discussion also highlights the mechanism of such intervention.

To recapitulate, the discussion has so far established that the analysis of the state's interventionist role requires an exploration of state-society exchange and an examination of the state's internal structure. The "institutionalist economists" moved to build on this to account for the state's objective (in developing countries) of undertaking the initiation of economic programmes in order to "catch up" with advanced countries. As such, the discussion starts from the advanced state functions and extends to developmental state.

Gerschenkron (1962) prescribed an "investment banker" role for the state. According to Evans, he argued that, in order for the "late developers in Europe" to "catch up" with the early industrialisers, the state's role needs to "go beyond" arranging a proper environment for the private sector to operate. It should be more proactive in setting up financial regulations. This view reflects the situation of the late-industrialisers in western states. As mentioned earlier, countries of the periphery followed different "trajectories". As such, Hirschman's view of intervention comes closer to the Third World countries' case. Hirschman (1958), according to Evans, advanced the argument further by stating that "capital is not the principal missing ingredient". It is, rather, the "dearth of entrepreneurship", that is, the "perception of investment opportunities and their transformation into actual investment". The state must maximise "induced decision-making" through "disequilibrating investments" to make it easier for "private capital to become more entrepreneurial" (Evans, 1995, p.31).

The form of state intervention has been further extended to include the “informal constraints” of society traditions and practices on the state’s intervention. North (1990), according to Evans, attributed the “relative” economic success to “the institutional framework”. However, because of his emphasis on “cultural” traditions as a prime determinant factor, while considering the role of “organizational” institutions as a secondary one, the analysis was incapable of accounting for “how organizational structures make a difference” in state policies (Evans, 1995, p.33). The build-up of the state’s interventionist role has been continued by the contribution of Robert Bates. In his earlier work on Africa, Bates (1981) advocated policies of “dismantling state power”. This argument is similar to that of the neo-utilitarians. However, in his later work Bates (1989) adopted the opposite argument. The argument contemplated, according to Evans, “an infusion of bureaucratic regulation” to mobilise the needed “capital inputs”. The essence of his view was not to consider the state as the prime player in developmental transformation. On the contrary, promoting development requires an analysis of “the interaction of state and its private counterparts”. What is new in this is that the said interaction is described as “mutually constitutive”, in which “state help creates classes” and the classes, in turn, play “a crucial” role in “shaping the state’s future developmental strategies” (Evans, 1995, pp. 33-38).

In their elaboration of “shared project”, both Alice Amsden (1989) and Robert Wade (1990) consolidated the already established kind of state intervention. Amsden identified a deeper state/private sector association than that of Gerschenkron or Hirschman. Thus, additional points were stressed. First, the state, according to Amsden, needs to intervene as “an entrepreneur, using the subsidy to decide what, when and how much to produce”. Second, “the state exacts certain performance

standards from firms” as a price for its support. By doing this, the state is indeed able “to coax into being a set of entrepreneurial groups that can serve as the societal side of a joint project of industrial transformation” (Evans, 1995, p.38). Similarly, Wade (1990) produced the term “governed market” (GM) to account for state measures to influence “resource allocation” and steer them toward achieving state economic development objectives” (Evans, 1995, p.39).

To conclude, the discussion has established the type of state intervention undertaken within the private sector in order to carry out its economic programmes. Five forms of state intervention were identified. They were: first, the state intervenes to arrange a conducive environment within which the private sector may operate. Second, the state intervenes as “investment banker”. Third, it needs to intervene in “disequilibrating investments”. Fourth, the state intervenes as an “entrepreneur”. And, finally, the state seeks to create “a set of entrepreneurial groups”. The next task is to elaborate the mechanism that enables the state to perform such roles.

### ***"Embedded autonomy":***

To recapitulate, it has already been shown that Weber carried state-society analysis a step further. His contribution, according to Evans (1995), moved the emphasis from discussing policies that support the market to discussing state's institutional structure. In order for the state to be run efficiently, the bureaucrats must equate their goal to that of the corporate. Furthermore, to be efficient, bureaucrats needed to acquire a certain degree of autonomy from the impact of the surrounding society. However, as mentioned earlier, Weber's state was not a “transformatory” state. It treated the

presence of a sound private sector as given and moved to discuss the internal state structure that enabled the state to promote economic activities.

The opposite of Weber's view of insulation is advanced by both Gerschenkron and Hirschman. According to Evans, they "do suggest that the aloof detachment suggested by Weber may not suffice". According to their common argument, the state intervenes in order to "stimulate" and consolidate the private entrepreneurs. Consequently, the state "is more embedded in society than insulated from it" (Evans, 1995, p.32). More importantly, however, is the fact that Weber, Gerschenkron, and Hirschman all advocated the concept of "a shared project", according to which both the state and the private sector have the common objective of stimulating the economy. Hence, both need to cooperate and complement each other. This opens possibilities for reconciling "insulation", that is, state autonomy, with "embeddedness". The concept of the "shared project" was further elaborated and substantiated by two studies. The first was conducted by Amsden (1989) on Korea and the second by Robert Wade (1990) on Taiwan.

Evans believed that combining the two views in an "embedded autonomy" was the core of state efficiency. Thus, "embedded autonomy" is the efficient mechanism for a state to promote its interventionist role.

However, the current research believes that "embedded autonomy" does not capture the complete reality of the developmental state intervention mechanism. The development process is characterised by the fact that foreign capital is a major player -- along with others -- within the social structure. Hence, combining "embeddedness" with "autonomy" needs to take into account not only local entrepreneurs, but also foreign capital. Consequently, the mechanism of the developmental state's

interventionist role is based on a triangular association between the state's bureaucrats, the private sector and foreign capital.

The discussion just concluded has established two important findings. First, it identified the five-phase state interventionist role. Besides its original form of intervention, as facilitator of private entrepreneurs, the state intervenes as “investment banker”. It also works to create conditions through “disequilibrating” inducement decisions, to push private sectors towards specified sectors. Furthermore, the state works as entrepreneur. It also, at certain stages, works to “coax into being” private entrepreneurs. The second finding is that the “embedded autonomy” mechanism of the said intervention needs to take into consideration the role of foreign capital. As such, a triple interaction is the framework within which to achieve “embedded autonomy”.

The discussion focuses next on relating “embedded autonomy” to the developmental state model. It elaborates on the association between the “embedded autonomy” and the triple interaction of state bureaucrats, domestic capital and foreign capital.

#### ***Embedded autonomy and the triple interaction:***

The main objective of the current section is to relate “embedded autonomy” to the developmental state model (the triple interaction). It has been argued that “embedded autonomy” is a formula that combines two contrasting propositions of the state's relationship with society (private sector). The first was that of Weber's bureaucratic autonomy. Autonomy refers to the ability of the state bureaucracy to formulate independently its own goals and “to count on those who work within it to see implementing these goals as important to their individual careers” (Evans, 1995,



p.50). The second position was that of “embeddedness”, advocated by Gerschenkron (1962), Hirschman (1958) and other ‘shared project’ theorists.

To establish the relationship between “embedded autonomy” and the triple interaction mechanism, this section reviews the literature on the developmental states of Japan. Chalmers Johnson’s (1982) analysis of the Japanese “developmental state” gave support to the argument of “embedded autonomy”. His basic argument is that the “developmental state” is a central element in explaining the country’s post-World War II “economic miracle”. The role exercised by the MITI (Ministry), inducing “transformative investment decisions”, represents a “sophisticated” implementation of Gerschenkron and Hirschman’s views on the necessity of embedded bureaucrats. At the same time, the institutional construction, especially in selecting the state’s bureaucrats and conferring a special reward status on them, conformed with the “Weberian hypothesis”. As described earlier, Weber’s bureaucrats are efficient if they are autonomous and their autonomy depends on the “prestigious” status they are offered (Evans, 1995, pp. 47-48).

Thus, Johnson’s argument gives powerful substantiation to the concept of the “embedded autonomy”. Consequently, the developmental state, as revealed by Japanese experience, transformed its economy through “embedded autonomy” and, according to Evans, “embedded autonomy” combines Weberian bureaucratic insulation with intense connection to the surrounding social structure.

Two points need to be stressed here. First is that it must be clear that the Japanese developmental state is descended from an originally colonial power. That is to say, the Japanese state followed an historically completely different trajectory from that of Korea, the country under discussion. Furthermore, the “embedded autonomy”

concept, as theorised here, takes the existing state structure and state-society relations as given. As mentioned earlier, the work lacks the historical-structural dimension. Evans “started with state structures and state-society relations and looked at their impact on subsequent changes in society” (Evans, 1995, p.41). However, “embedded autonomy” “depends, ....., on both the historically determined character of the state apparatus and the nature of social structure” (Evans, 1995, p.50). To complement this project, Evans calls on “others to start with social structures, then try to explain the emergence of particular forms of state organization and state-society ties” (Evans, 1995, P.42). This will be the essence of the current research.

Furthermore, the “embedded autonomy” view needs, as mentioned earlier, to be reconsidered, enhanced and extended to account for the prominent presence of foreign capital within developing countries’ social structures, including those of Korea, which is the main subject of the current work.

Consequently, the developmental state now faces the task of achieving “embedded autonomy” through supervising a triangular association between its bureaucrats, the private sector and foreign capital. This interaction is the mechanism through which the state attempts to achieve “embedded autonomy”. The form of this triple interaction, whether alliance or non-alliance, requires an historical structural analysis of the evolution of the country’s social structure.

To conclude, this section discussed the relationship between "embedded autonomy" and the triple interaction of the developmental state. It stressed that the concept of "embedded autonomy" needs to take into consideration the prominent position of foreign capital in the social structure of the developmental state. Thus, there are two levels of analysis in the proceedings of the developmental state. First is the level of

triple interaction; this involves state supervision of an interaction between its bureaucrats, domestic capitalists and foreign capital. The success of the state's role in arranging the proper form of triple interaction is translated into its ability to ascertain the second level, that of carefully balancing the involvement of its bureaucrats in the social structure, that is, to achieve its bureaucrats' "embedded autonomy". The triple interaction is the mechanism that enables the state to establish "embedded autonomy" and, consequently, carry out its economic programme.

Given the previous elaboration, the developmental state could be defined as that which establishes and supervises a triple interaction of its own bureaucrats, the private sector, and foreign capital, and manipulates this interaction to achieve an "embedded autonomy", through which it seeks to accomplish its transformatory objective of initiating sustainable economic development.

## **Chapter Six**

### **The Triple Alliance (TA):**

The previous chapter established the developmental state intervention mechanism. It demonstrated that the said mechanism is carried out at two levels. At the first level the state orchestrates a triple interaction. And at the second level the state seeks to manipulate this triple interchange to produce a semi-embeddedness of its bureaucrats. Through this type of embeddedness, the developmental state executes its economic growth programme. As such, the state's success in accomplishing its programme is associated with its ability to prevent the prominent forces - mainly the multinationals and the local capital - from influencing its bureaucrats, that is, to negate the triple alliance. As has been mentioned earlier, the current research assumed that Korea's economic growth success is attributed to the state's ability to impose a triple non-alliance (TNA) interaction of state's bureaucrats with local capital and the multinationals. Thus the task is to trace the formation of the TNA and to associate its presence with Korea's economic performance. This objective is accomplished through carrying out an historical structural analysis of Korea's social evolution. As the triple non-alliance is a negation of the triple alliance, it is necessary to start by identifying the triple alliance. As has been indicated earlier, the triple alliance concept was developed by Evans (1979) to describe the dependent development in Brazil. The said work, however, lacked an analysis of the underlying historical structural forces that explain the formation of those alliances. Accordingly the task of the current chapter is to consolidate the conceptualisation of TA/TNA. This mechanism will then be utilised to examine Korea's economic experience. As such, it needs to be stressed that the chapter's objective is not to undertake a comparative analysis of the two

economic experiences. However, for the sake of TA/TNA consolidation, the discussion will emphasise aspects in Brazil's state's policies that are expected to be different from those of Korea. The chapter, furthermore, is not extended to analysing Brazil's economic growth process. The said exercise was carried out by Evans. The chapter is divided into two main parts. The first analyses the historical background to the formation of the TA/TNA. It undertakes an historical structural analysis of Brazil's social structure, from the arrival of the Portuguese in Brazil (1549) to the advent of the developmental state in 1964. It shows that the said configuration produced two relevant outcomes. First was a strong army with a strong interest in the country's progress. An elite of this army presided over the developmental state. The elaboration showed that the military junta retained two main features which - as we will see - had strongly shaped the formation of the TA/TNA: first, the military rulers harboured no class motivations; second they were ideologically liberals in their economic orientation. Their devotion to liberalism was deep to the extent that their economic growth policies did not distinguish between foreign or local entrepreneurs. The second outcome is that the said configuration produced deep-rooted local capitalists and foreign capital classes. Similarly, this outcome influenced the developmental state's policies to sustain the TNA. The discussion demonstrates that, in spite of the presence of deep-rooted local and capitalist classes, the state in Brazil is, however, no less strong or autonomous than that of Korea. The analysis of this part seeks to reveal first, the way in which the social and structural evolution in Brazil produced consolidated local capitalists and foreign capital classes. And second, the way in which the said configuration shaped the Brazilian Army's involvement in the country's economic and political affairs.

Next, the task of the chapter is to trace the impact of these results on the developmental state's effort in establishing the TA/TNA mechanism. Thus the second part of this chapter reveals first, the way in which the developmental state manipulated the inherited social setting to enforce a triple non-alliance formation. And second, it explains why and how the state was not successful in preserving the triple non-alliance. The discussion in this part emphasises that the military junta presided over a strong developmental state as demonstrated in the successful establishment of the TNA. The TNA formation was achieved through removing the traditional elite from the state and through the consequent elimination of foreign capital's influence on the state's policies. But, because the ruling elite were not class motivated, the traditional elite were not totally eliminated. This is also true in the case of foreign capital. As such, the inherited consolidated classes of domestic capitals and foreign capital did not interfere with state's effort to intervene heavily in the economy. The discussion highlights the basic features of state's intervention tools. The discussion relates Brazil's economic "miracle" to the presence of the TNA. It next explains how the state was not able to preserve this success. The answer is traced back to the two main conclusions of the first part. First is that the military junta is closely associated with the traditional class. As such, the two classes of local capitalists and foreign capital were driven out of state control but still retain dominance of the economy. And second, the fact that the military junta were devoted liberals contributed to the defeat of their economic transformation project. The part shows that the adoption of liberal economic views shaped the state choice of economic policies in a manner that benefited foreign capital at the expense of domestic capitalist class. Namely, state policies sought to promote the private sector, disregarding its local or foreign origins. Throughout the discussion the expected

differences and similarities between Korea and Brazil states' policies are stressed. The discussion on Korea's experience confirmed first, that the different historical trajectories of the two countries produced two strong developmental states. And second, –contrary to Brazil- Korea's structural evolution produced no deeply rooted classes of local capitalists and foreign capital. And as will be demonstrated in a later discussion, this conclusion confirms that dependency theory does appreciate the "diversity" within the developing countries. The two states' policies are similar in that they both were able to establish a TNA form of triple interaction. They were also both successful in manipulating the TNA to achieve economic success. However, they differ in their ability to preserve the TNA mechanism.

The prime conclusion of the chapter is that the concepts of the TA/TNA are now consolidated through an historical structural analysis. The current study utilises this dependency mechanism to uncover the causes of Korea's economic success in the following chapter.

## **1. TA/TNA historical background**

The current discussion traces the historical background that contributed to the formation of the triple alliance and the triple non-alliance interactions. For such an objective, it conducts an historical examination of the social structural configuration of Brazil. The exercise covers the Portuguese era (1549 to 1822), the years of the Empire (1822 to 1899), the years from 1899 to 1930 and the years from 1930 to 1964. Its basic argument is that Brazil's social structure configured in a manner that produced, first consolidated classes of domestic capitalists and foreign capital. And second, a strong army with a strong interest in the country's affairs. The discussion

also stresses the way in which the said evolution shaped the army's said intervention. That is, the discussion emphasises that the army's close bond with the traditional class influenced its policies toward the latter, as well as shaping the army's economic orientation.

### **The Portuguese era: (1549-1822)**

This section focuses on social class configuration in Brazil during Portuguese control of the country. It examines the impact of the structural interaction on the positions of the traditional class and foreign capital in the society. The discussion notes that, at this stage, the army played no major role in the domestic power relations.

The modern history of Brazil has been shaped by Portugal since the arrival of Tom De Souza in 1549. At the time the country was dominated by "local notables". The King of Portugal supported this landed nobility with the new right "to police their own estates and to grant inviolable asylum to any body" (Sigleman, 1974, p.65). The process of social stratification in Brazil began in 1808 with the declaration of Rio as the new capital of the entire empire. The country was flooded by new people, along with new capital and ideas (Bethell, 1968, p.121). However, this did not dilute the strength of the traditional class. On the contrary, the traditional class position was strengthened through the *coronelismo* mechanism. According to this system, the landed elite were given the right to govern their vast territories (Goldsmith and Wilson, 1991, pp. 446-447).

The arrival of the British on the Brazilian scene created a source of tension between the landed elite and the king. In order to secure British support for his cause in



Europe, the king gave into British demands for favourable treatment and privileges for their citizens. This move signals the arrival of foreign capital. The existing traditional class looked at the newcomers as a threat to their interest. The landed class was especially worried about the British desire to abolish slavery. In response to this they pushed for independence of Brazil. Accordingly, Dom Pedro on September 7, 1822, declared the independence of Brazil. A new era in Brazil's social stratification had thus begun. These developments manifested first, that the modern political and economic history of Brazil had been mainly shaped by foreigners. And second, the landed elite retained a dominant position within the ruling class. As will be revealed later, Korea at this time was still a closed nation with a stagnant political and social structure. Its external relationship was only with China.

### **The Empire: (1822-1889)**

The discussion in the current section traces the impact of structural interaction on the two main conclusions of the previous section: that is, on the position of the landed elite and on the presence of foreigners. It also notices the beginning of the army's involvement in the country's affairs. As we have just concluded, the birth of the empire demonstrated the dominant position of the landed elite. However, the birth of the new independent state declared the beginning of new and rapid processes of social stratification. The elaboration indicates, however, that those developments reinforced the position of the traditional class. They also cemented the class ties with foreign capital. During those years, three factors shaped the process of social configuration and contributed to consolidating the role of the existing classes. The first was the birth of commercial and industrial associations. The Brazilian economy depended at the time on production for export of large-scale plantations, such as sugar, cotton, tobacco and coffee. Consequently, an export-import process began to flourish. The traditional

class began to disintegrate into new sub-factions. The first of them was represented by "business interest groups". The associations enjoyed "regulatory and advisory prerogatives and access to the highest levels of governments" (Ridings, 1976, pp. 228-247). They enlisted eight prime ministers as honorary members. Their penetration of the political system reached the royal family as well. The process of social configuration continued. And, at a later stage, manufacturing groups started to gain ground. Accordingly, friction within the traditional class arose. The attitude of the commercial group towards this newly emerging sub-class evolution was hostile. The presence of the latter group (the industrialists) was fomented by several developments. The major among them was the world agricultural depression which began around 1873. The second factor that supported the industrial sector was its ability to absorb the increasing number of people who had migrated to Brazil as well as those freed from slavery. As such, the year 1880 witnessed the birth of the first industrial association. The newly emerging faction began to gain rapid support from prominent figures in Brazilian society. Among them were a famous retired prime minister and two ex-directors of Rio's commercial association. Until now, however, the traditional elite, in spite of its disintegration into subgroups, found that its dominant position of the political and social system was not diluted.

The second factor that influenced social structural changes in Brazil was foreign capital. Its presence further enhanced the existing traditional class. The current discussion reveals, however, that foreign capital retained a dominant position within the economy. Indeed, the structure of the Brazilian economy in the nineteenth century gave foreigners a prominent role to play. The arrival of the Portuguese in general and the declaration of Rio as the capital of their empire rapidly integrated the

plantation-based economy into the world economy. They were engaged in export/import activities. Foreign capital role was enhanced through Britain's treaties with Brazil as well.

The first category of foreign capital was the business community in commercial as well as industrial groups. In the commercial community sector, Rio's commercial associations' records indicated that in 1877 the Brazilians occupied 3 out of 17 seats in their boards of directors' membership. Furthermore, foreigners chaired most of those boards. They were dominating sectors of sugar, rum and coffee. Similarly, external trade was also dominated by foreigners. Numbers of businessmen of Brazilian origin ranged from 17 percent in 1875-76 to 37 percent in 1892 (Ridings, 1982, pp. 55-96). This heavy presence of foreigners was decried by Rui Barbosa, who in 1891 stated that "no one is unaware that commerce, especially large-scale commerce, in our most important trade centers, resides in its greatest part, not to say in its entirety, in the hands of foreigners" (Ridings, 1982, p.55). The presence of foreigners within the industrial community is no less predominant. They were in the majority in industries such as textiles and hat makers. This meant that the foreigners were dominating not only the foreign trade sector but also the manufacturing sector. The banking sector was no exception. Foreign banks were entrenched in the Brazilian economy since the early days of the empire. Their control of the banking system allowed the foreigners to enhance their dominance further at the expense of the locals. Sectors of transportation and infrastructure were also foreign-dominated.

These developments indicated that the birth of the empire rapidly integrated the economy into the world economy. Two main outcomes were distinguished. First, the

process of integration fomented the creation of new commercial and industrial groups. And second, it opened the door for more foreign capital to arrive in the country. As indicated earlier, these two elements allowed the foreigners more opportunities to dominate the economy and consequently to consolidate their association with the domestic traditional class. The upper hand in this association was retained by the foreigners.

The third major player in the Brazilian social configuration during this era was the army. In its early days the Brazilian Army was an elite institution. The Military Academy, which was established in 1810, was preserved for the aristocratic class (traditional elite). According to William S. Dudley, "the conferral of cadet status, based upon a family's military tradition or aristocratic pedigree, gave a young officer preferred status" (Dudley, 1975, p.107). This means that the army is the domain of the traditional class. This reality explains the army's strong association and lenient attitude toward the traditional class and the foreign capital. Accordingly-and as will be revealed throughout the current chapter- the army's measures toward the traditional class and foreign capital were not class motivated. They were against their control of the state. The winds of change that were sweeping through Brazil's society led the army to begin involving itself in public life and to represent a gradual force of change in Brazil. The first of these changes was produced by the Paraguayan war of 1865 to 1870. The army image changed from being that of a "prestigious" entity to an institution that defended the country's honour.

Consequently, Army officers became "heroes" in the public's eyes and the politicians sought their support. Most importantly, however, the war led to the opening of the

"aristocratic" Military Academy to students from lower ranks in society. Furthermore, military students were exposed to political indoctrination as never before (Nunn, 1972, p.32). However, this did not dilute the image of the army as an institutional elite loyal to the monarchy and with strong bonds with the dominant traditional class. In spite of this, however, the army demonstrated a new attitude on two occasions. First, in 1881 the army "pressed" for the change to direct election law. And second, in 1887 the army refused "to participate in pursuit of fugitive slaves". However, the strained relationship between the army and monarchical politicians - and not the traditional class - "had reached a peak unprecedented in the fifty years of constitutional monarchy" (Dudley, 1975, pp. 120, 121, 177).

### ***The coup of 1889***

The army was drawn into the political scene as a result of regional conflict within the traditional elite in support of the region of Sao Paulo against Rio's interest. As a result of structural stratification, a regional conflict was developing between those defending the interests of Rio's community and those supporting the interests of Sao Paulo. At stake were the expected resources drawn from the opening of coffee-producing lands west of Sao Paulo. The still powerful commercial community was determined to utilise those expected resources to strengthen its financial dominance. It was opposed to the emergence of Santos as a coffee-exporting centre and to the rise of Sao Paulo as a financial city in that coffee region. As such, the Rio community was heartened by the defeat of the administrative decentralisation proposal. Obviously at the heart of this political dispute were the interests of the dominant commercial elite. The community was still retaining an unchallenged dominant political position. Through the "great families" it controlled the monarchical political institutions. And the fact was that those families had for a long time dominated the political system of

the country. As an example, the council of state - which retained powerful administrative as well as judicial prerogatives - was under their complete domination and they were also directing the legislative process in the senate. And in the chamber, despite their lack of majority, their economic and financial strength allowed them to influence its decisions. The community sought to achieve two main objectives, first, compensation for the loss sustained on slave liberation by the "golden law" of May 12, 1888, and second, to preserve the centralisation of the state that allowed their financial domination of the coffee trade of the newly opened region of West Sao Paulo. This issue was considered as a vital matter for their own existence. On the other side, the republicans were fighting to break the hegemonic position of Rio and to restructure state institutions to serve the interest of their region-west of Sao Paulo.

The issue of slavery abolition heightened the already boiling situation. It "shattered" the loose coalition between liberals and conservatives. As a result of these developments, it appeared that the days of the conservative cabinet of Joao Alfredo were numbered. It was also clear that the monarchical institutions came under heavy strain. The republican leader, Manoel Ferraz de Campos Salles, called for the replacement of monarchical institutions by those of a federated republic. The other side, led by Antonio Ferreira de Carvalho, called for reformation of the existing political system to allow more autonomy to provinces.

The Rio community looked to Ouro Preto - descendant of one of the great families - to defend its interests. In order to stop this trend, the republicans resorted to the army. They asked an ailing army general to put an end to the monarchy on November 15, 1889 (Colson, 1981, pp. 265-292).

This development marked a new era, with far-reaching consequences for Brazil's destiny. It changed the army's passive attitude to an active one. And, as was just mentioned, the army's initial intervention was in support of one faction within the traditional elite. However, the army directly ruled the country for five years. The political and social implications of this development on the power relations between the existing classes are discussed in the next section.

### **The first republic: (1889-1930)**

Beginning from the year 1889, the army started to perform a prime role in shaping the social, political and structural evolution in Brazil. However, two features of this intervention are emphasised. First is that the army was still closely tied to the traditional class. Second, it harboured no negative attitude towards the foreigners. Two phases of army intervention could be distinguished in this regard. The first phase started in the year 1889, when the army overthrew the empire, and ended five years later. During those years the army assumed direct rule of the country. The second phase ran from the year 1894 until the year 1930. During those years the army influenced the structural changes without directly controlling the government.

As such, the current section reviews the evolution of political and social processes during the years of the first republic, involving the army as the major contributor in this process. The discussion focuses on the impact of these developments on power relations between components of the triple interaction. At the centre of those developments was the rising tension between the old allies, the army and the republicans. The army ruled Brazil directly for five years from 1889 to 1894. The basic findings of the section are, first, the increasing intervention of the army in the

public affairs of the country, a trend that led - as will be explained later- to the birth of the developmental state. Second, that the army's measures during those years had not jeopardised the solid position of the traditional elite and that of the foreigners within the political and social settings of the country. The impact of these conclusions on the TA/TNA formation will be evaluated in the next part.

As indicated earlier, the birth of the first republic was engineered by the republicans in the Sao Paulo region to face the ensuing threat of Rio. The army ruled Brazil for five years, from 1889 to 1894. The move unseated the traditional class from the driving seat of the state for five years. However, during those years its influence on the political life of the military state was still heavy. According to Nunn, "the republic, despite the military's five years of leadership, was the creature of Brazilian agrarian and state interests" (Nunn, 1972, p.38). And as mentioned, the main reason for this heavy influence of the traditional class was that the military move was not directed against the traditional elite. The move was rather part of the power struggle between two factions of the same class. Accordingly, no major steps to purge the traditional class or the foreigners from the state were unleashed. The civil system was not reformed. The military rulers based their recruitment for the civil service on the educated personnel who usually are from the traditional class (Lambert, 1968, p.170). The system of *coronelismo* was not challenged, either. It was also noted that the military-led government was sympathising with the industrialist group as opposed to the commercial community (Conniff, 1977, p.88; Ridding, 1976, p.247). Similarly, no serious measures against foreign capital were undertaken. Some politicians within the first republic were noted to have been - as mentioned - harbouring anti-foreigner feelings. But those feelings were not translated into action. However, those anti-



foreigner attitudes changed as soon as the traditional class regained power in 1894. The honeymoon between the army and the traditional politicians (republicans) was short-lived. Since the early days of the first republic, mistrust had been developing between the army and the republican politicians. The traditional politicians accused the army of mismanaging the national affairs, whereas the First World War exposed to the army the defection of the corrupt state - they had participated in its establishment - and that of the political system (Nunn, 1972, pp. 37-43).

The mistrust between the two sides was demonstrated as early as 1894, when politicians, having regained control of the state, moved to confine the army to its military camp. Various further steps were undertaken and resulted in raising the tension between the two sides. Among those measures was the appointment of a civilian as defence minister, an alleged insult by a republican presidential candidate and a government move to promote navy officers to counterbalance the army's influence. By 1920 the anti-military feeling was prevailing among Brazilian politicians, who considered the army as their serious rival.

At this point (in the 1920s) the Brazilian social structure looked polarised. On the one hand, "socially" the army, that was still headed by generals descended from the traditional class, was now composed mostly of people of the middle and lower classes. And, on the other hand, the political scene was dominated by the traditional class.

Young officers within the army accused the ruling elite of directing the republic towards serving "the political interests of state machines of Sao Paulo and Minas

Gerais, the economic interests of coffee barons and other agrarian and commerce oriented interests, and social interests of the upper sectors" (Nunn, 1972, p.43). Furthermore, the years of the republican politicians were marked by the continuous heavy presence and influence of foreigners, a situation that prompted Steven Topik to argue that the state in Brazil "basically responded to the dictates of the native ruling class and foreign capital". And the extent of the domination was extreme, so that the state incurred huge debts to subsidise the ruling elite (traditional class and foreign capital) (Topik, 1979, pp. 328-329). As a consequence, the tension between the army and the politicians intensified. The first military move against the government erupted in Copacabana. The move declared the birth of the *Tenentes* movement, that accused the government of political corruption and the abuse of the army (Conniff, 1977, p.61). The state response was the closure of the military-school (Escola). The step came as a shock to army officers. Another revolt against the government broke up two years later, in 1924. This time the military succeeded in capturing "Sao Paulo for nearly a month". The birth of the *Tenentes* movement represented a significant trend in Brazilian social structure, as it was considered a class-motivated group. It was directed against corrupt politicians.

The rise of such socially based moves signified the internal social change that was taking place after the First World War. The social structure was disintegrating under the pressure of industrial expansion. New classes were being created and pressed their demands on the republic. They, along with the military - represented by the *Tenentes* movement - allied themselves with Vargas' supporters. In 1930, States of Rio Grande do Sul and Minas Gerais revolted in support of Vargas against the Sao Paulo presidential nominee. The regional revolt found support among military officers, who

accused the republic of doing little to support industrialization and of the negligence of the "armaments industry" (Conniff, 1977, pp. 61-62; Nunn, 1972, pp. 38, 45, 48). The Vargas revolution was thus born.

To conclude, the review revealed that the military influenced social stratification throughout those years but had not shaken the prominent position of both the traditional class and foreign capital and their predominance over state bureaucrats. And, as will be demonstrated later, this feature of army intervention would not change and would shape the 1964 military state's attempt to establish the TNA.

Compared to Brazil, Korea during the same period - as will be demonstrated - witnessed almost opposite social and political settings. The country suffered from a Japanese occupation and annexation. The occupation uprooted the existing traditional class and replaced them with a new Japanese one. Similarly, the occupiers swept away the ruling class and replaced them with the Japanese ruling elite. The Japanese capitalists became a local class that dominated the Korean economy. Korea at this time lacked a national army that interacted with other social classes. Furthermore, the dominant traditional elite was of foreign origin. Consequently, the military rulers of the Korean developmental state were not closely tied to the existing classes, as Brazil's were. And, furthermore, Korea lacked the presence of considerable foreign capital to reckon with.

### **The years from 1930 to 1964 (The Vargas era):**

The previous discussion confirmed that both the traditional class and the foreigners were well positioned in the social fabric of the country. It also stressed the active

engagement of the army in the economic and social affairs of Brazil. It also confirmed that the army was still attached to the traditional elite. And consequently, the army expressed no negative motives toward foreigners. The discussion of the current chapter continues to evaluate the structural changes of the Vargas era on these findings. It is important to mention that the period from 1930 to 1964 included several regimes, such as those of Dutra, Kubitschek and Goulart. However, because of Vargas' far-reaching policies, the entire era was influenced by the profound changes which he initiated in Brazil.

As in the previous sections, the focus of the current one is to examine the impact of Vargas measures on the social evolution of power relations between the domestic capitalist class and the foreign capital. It is the argument of this section – as the previous ones – that the position of local capitalists and foreign capital classes was not jeopardised, because the army, which was at the centre of these changes was still tied to the traditional class.

Immediately after assuming the presidency of Brazil, Vargas embarked on a programme to industrialize the nation and to bring it out of the crisis of world depression. Indeed, the Vargas early period - the 1930s - was considered to be a “watershed in modern Brazilian history, when the state, society and economy were altered, sometimes radically” (Conniff, 1977, p.88). Vargas' program was motivated by the desire “to bring Brazil up from the depths of depression” (Nunn, 1972, p.50). The accomplishment of this objective was through the “support and speed up” of industrialization (Baer et al, 1973, p.25).

To implement this ambitious programme, Vargas built a broad inclusive coalition that made room for a private sector, both local and foreign. In spite of the fact that he was brought to power by the army, Vargas was fully aware that the success of his programme need not ignore the traditional politicians. Accordingly, the original Vargas coalition consisted of three main partners, the politicians headed by Vargas, the *Tenetes* movement and the army. Indeed, the 1930 revolution ended the exclusive control of the dominant class by one faction (the coffee producers) and replaced it with another broadened one (Faucher 1990, p.6).

At the structural level the previous coffee producers-dominated regime fell under the pressure of the economic crisis of 1929. The revolution, indeed, did away with an agrarian based economy (Munck, 1979, p.18). The economy's base is now widened to include a "coalition of the fractions of the agrarian, industrial, commercial and bureaucratic bourgeoisie" supported by the military (Faucher, 1990, p.6). Without jeopardising the position of the traditional class, the new regime further broadened its class-based strength by mobilising the newly emerging masses of middle and lower class sectors. The move reflected an appreciation of the changes produced by the industrialisation of the country. The move also confirmed the argument that the 1930 revolution, at this stage, was not directed against the dominant traditional class. It was rather against the class assuming control of the state. The clear indication of this is that Vargas' state continued its protection to coffee producers and extended it to other sectors, such as sugar, salt, fishing...etc (Munck, 1979, p.18).

This was the broad social and political setting. Most delicate for the regime's survival, however, was the ability of Vargas to strike a deal with the army as his major ally to

constrain the class motivated *Tenentes* movement. The movement sought to purge the existing traditional politicians and rearrange labour relations. They joined Vargas' coalition to seek the achievement of these objectives. The army did not harbour any class motivated attitude, which made it a perfect ally to contain the extremism of the *Tenentes* movement. Army officers joined Vargas to demonstrate their displeasure with the abuse of power by the old republic. The majority of military officers did support the revolution "despite their differences of opinion on what should follow". It was the sense of "national crisis, therefore, that united most of the professional army officer class" (Nunn, 1972, p.50). As such, it maintained a neutral stand on the frictions between classes and was not a "defender of any one class or group", a position that was adopted earlier and was demonstrated in the army's refusal to pursue "runaway slaves in 1887". This position, however, represents indirect support for the dominant group "who made the laws that the constitution charged the military to maintain" (McCann, 1979, p.112).

The first attempt by the ousted faction of the dominant class to make a comeback was made in mid-1931. The still powerful elite, in particular *paulista*, coffee producers, supporters of the old regime and the bureaucrats were hard pressed by the depression. They felt neglected by the new regime. As a consequence they, particularly the politicians, from Rio Grande, Sao Paulo, and Minas, formed an alliance against Vargas. Their demand was to bring back democracy. In order to face this threat, Vargas resorted to the *Tenentes* to suppress this mutiny. As this happened, the mainstreamers, the majority within the army, feared that Vargas might fall under the influence of the *Tenentes* extremist movement. As such, they adopted a compromise position. They "insisted" on Vargas assuming an unspecified provisional presidency.

This army position reflects its strong attachment to the traditional class. Vargas was alarmed by the possibility of losing the support of the army. He realised that to stay in power he needed the support of the army and satisfaction of the traditional class. Accordingly, Vargas embarked on two measures. First, to calm the army's anger, Vargas moved back again to contain and restrain the *Tenentes* movement. As such, members of the movement were prevented from any prominent presence in Vargas' 'tenuous coalition'. Second, Vargas revived the *coronelismo* in order to strengthen his popular support (Goldsmith and Willson, 1991, p.447). The need for the army's support was necessitated also by Vargas' desire to push through his industrialisation programme. However, his "socio-economic" agenda "was severely hindered by political and administrative instability". From the beginning of his rule to the mid-1930s, Vargas faced "continued turbulence highlighted by civil war (1932), a communist led uprising (1935) and a Fascist-inspired putsch (1938)" (Hilton, 1975, p.776). To face these internal threats, Vargas succeeded in arranging a deal with the military. He "promised that if the military gave him order, he would give Brazil progress" (McCann, 1979, p.115). The arrangement declared the birth of the dictatorial Estado Novo (1937-45). The first act of the new state was to weaken "the militarized state police forces" and strengthen the federal forces. Throughout the years of Estado Novo, the army enjoyed a strong partnership with the politicians. The state witnessed "widespread utilization of military officers" to run the country's affairs (McCann, 1979, p.125). Army personnel assumed an "advisory capacity in socio-economic affairs". On the 10th anniversary of the regime in December 1940, Vargas "stated that Brazil's economic recovery, social progress and prosperity went hand in hand with the modernization and professionalization of the military". For his part,

General Eurico Dutra “stated that Vargas’ government had created the conditions necessary for professionalism to take hold in the army” (Nunn, 1972, p.50).

The good association between Vargas and the military proved to be short-lived. Geopolitical considerations started to gain an increasing influence on the configuration of domestic social structure. The eruption of World War Two (1939-45) brought to Brazil two major developments, first, an alliance with the United States and second, the direct participation of Brazilian forces in the War from September 6, 1944 to May 2, 1945. On the first point, there existed a strong current within the Brazilian army which looked at the United States and Great Britain “as exploiters of Brazil natural resources who wished to keep the country undeveloped” (McCann, 1979, p.117). However, the issue of interest which drove Brazil toward alliance with the United States was this: the army considered Brazil’s alliance with the U.S as “born more of the necessities and opportunities of the war situation than of common interests” (McCann, 1979, p.117). The organisation and training of the Brazilian army fell - from 1940 - under American anti-communist teaching. As such, the anti-populism trend within the Brazilian army was strengthened. It “became hostile to any sort of populism” (Nunn, 1972, p.52). This means that the army became indoctrinated and this represented the first point of departure of the army from the Vargas regime, and a source of future friction between the old allies.

The second issue was the participation of the Brazilian army in World War Two. The participation exposed to the army “how undeveloped their bountiful homeland was”. It also was an opportunity to re-think its faith in the authoritarianism. And “by 1944, at the very latest, army officers no longer equated professional progress with



authoritarian political schemes” (McCann, 1979, p.119). This issue represented the second point of departure between Vargas and the Army. It indicated that the army was sympathising with the dominant class demand for democracy. Consequently, Vargas was forced out of office by a military junta in October 1945.

Immediately after assuming power, Marshall Dutra began to dismantle the corporatist *Estado Novo*. Local governments regained their lost authorities. The prime target of the new regime was the civil service agency (DASP). It was accused by the new rulers of being “an instrument of the Estado Novo and was inherently anti-democratic” (Lambert, 1968, p.180). The dominant class took the government change as an opportunity to make a comeback. The civil service was again manipulated as “an instrument of patronage to a much greater degree than before”. Furthermore, local administration was back in the hands of “local capital machines”. Indeed “the bureaucracy had been recaptured by the politicians who used it to reward their friends” (Lambert, 1968, pp. 179, 189). However, this return of the dominant elite proved to be short-lived. Vargas, equipped with his popular heritage, came back to the political stage. He was elected as a constitutional president from 1951 to 1954. Vargas’ legacy did not end with his abrupt death by suicide in 1954. His corporatist state succeeded in establishing basic industries and building an extensive infrastructure. Most importantly, however, his coming back to rule represented an appreciation of his inclusionary project, which meant that the traditional class was still a major partner within his coalition.

The discussion has thus far focused on the impact of social changes on the domestic traditional elite. The role of the other class- the foreigners- was not jeopardised,

either. Throughout the years under consideration, no serious steps against or in favour of foreign capital were adopted. However, this attitude changed during the Kubitschek regime. The latter embarked on “a policy of rapid industrialization based on full participation by foreign private investment” (Gereffi-Evans, 1981, p.39). During the Kubitschek presidency the country attracted “massive” amounts of foreign direct investment. Figures indicated that, during Kubitschek’s presidency, the annual FDI inflow averaged over \$110 million, whereas, in the whole six years of Vargas, the average was a mere \$8 million (Gereffi-Evans, 1981, p.59). However, the events after Kubitschek took a sharp turn towards corporatism. Vargas’ legacy brought Joa Goulart to the presidency in 1961. As a protégé of Vargas, Goulart was considered to be hostile to the traditional dominant class. Earlier, in 1954, Goulart was ousted from office as Vargas’ labour minister under pressure from the dominant elite. His assumption of the presidency meant that the country was leaning back toward populist policies. Goulart’s era witnessed “a rapid proliferation of peasant and rural workers associations”, a trend that started earlier, during Vargas’ time. This process was unleashed by the “commercialization of agriculture and the rationalization of internal marketing system” (Shepard, 1970, pp. 8-33).

Aware of the implications of these militant trends for the army, which was obviously still anti-populist, the Goulart government tried to restrain the activities of these associations. In 1963, the state enacted the Rural Labour statute of 1963, in order to contain the extremist trend within the movement. The latter developments proved that such a measure was not sufficient to prevent the army’s intervention. Indeed, the March 13, 1964 “SUPRA Decree” meant the outright seizure of the property of the landholding class, clearly indicating that the days of the regime were numbered. On

April 1, 1964 the army intervened and ousted Joao Goulart from office. The 1964 coup reflected the ability of the dominant class to manipulate “the anti-populist sectors of the military and the technocracy” to bring down Goulart’s administration (Shepard, 1970, p.33). But, as will be explained shortly, the army had its own agenda. Thus, the structural changes in Brazil during the Vargas era reinforced the role of the army. It also confirmed the army ties to the traditional and foreign capital classes. As such, the dominant positions of both classes in the country remained deep.

In conclusion, the first part's discussion revealed that Brazil’s social configuration produced a military supervised developmental state. Second, the discussion also indicated the presence of well-established and deep-rooted local capitalist class. The process, furthermore, produced a well-embedded foreign capital class within Brazil’s economic and social fabric.

Korea, on the other hand, went through a sharply different course of events. The Japanese occupation was followed by the division of the nation. Soon after that, the country suffered from a devastating civil war. In spite of these clear differences, both structural changes produced military based developmental states. The state in Brazil needed to deal with deeply entrenched traditional and foreign classes. It was dominated by military leaders who were still tied with the traditional class and who believed in the strong role of foreign capital, whereas Korea's developmental state faced no such strongly rooted traditional class and the non-existence of a foreign capital class. The discussion of the next part demonstrates that Brazil's developmental state was as strong as that of Korea. It was able to establish a TNA form of interaction and was able to manipulate it to produce a successful economic growth process.

However the state in Brazil - unlike Korea's - was not able to sustain this success. The question that arises here is this: what accounts for the different experiences? The answer, according to the next discussion, is sought in the different guiding principles that influenced the military leaders of both states.

## **II. The TA/TNA Formation**

The discussion has thus far concluded that historical structural changes in Brazil produced a military based state. It also showed that those social and structural configurations reinforced the presence and the role of local capitalists and foreign capital classes. The discussion also revealed that the military junta who presided over the state was still tied with the traditional class. The task of the current discussion is to reveal the way through which the developmental state was able to manipulate this social setting to establish the TNA. The discussion begins with identifying the basic principles that guided state policies. Next, the discussion briefly reviews the state's measures to remove the traditional class from the driving seat of the state. The success of the state in implementing these policies demonstrates that it is as strong as the state in Korea. The discussion reveals, however, that those measures did not go far enough totally to cleanse the state from the remnant of the traditional class. This attitude is explained by the close bond of the military leaders with the said class. Similarly, no major steps were taken against the foreign capital class. The reason is traced back to the strong belief of the military rulers in the positive role of foreign capital. The elaboration next, identifies the tools through which the state carried out its economic programme. The discussion shows that, in creating these vehicles, the state in Brazil was not less autonomous than its counterpart in Korea. The difference, however, is that Brazil has chosen not to initiate a domestically-based growth process. This was

obvious in the absence of significant measures designed to promote the financial and technological capabilities of local industries. It was also clear in the absence of a strong regulatory and supervisory system and of a powerful planning agency. The discussion also reveals that this issue is also demonstrated in the state choice to establish joint ventures, that included both local and foreign capitals. It will be shown that these joint ventures benefited mainly the multinationals and were the prime causes of the derailed growth process. The elaboration next relates the TNA to Brazil's economic success.

Korea, on the other hand, followed a different path. Enhancing the financial and the technological capabilities of the local industries was the top priority for the state. To enforce such choice, the state adopted extensive measures and regulations to channel and direct foreign capital and technology to serve local industries. The state further dominated the banking system and supervised soft financial loans to local industries. It also put in place various measures and regulations that guaranteed its unchallenged dominance over the economic and political affairs of the country.

Before proceeding, however, it is important to begin by clearing the apparent contradiction between the developmental state and the triple alliance. As mentioned earlier, the concept of the developmental state assumes that the state's bureaucrats are free from the influence of the multinationals, whereas the triple alliance implies the opposite: the state's economic policies are serving the interests of the multinationals. However, the analysis of Brazil's dependent development (Evans, 1979) implied that the developmental state is associated with a triple alliance. To clear this apparent contradiction, the current research argues that the triple alliance referred to in the said

analysis is an economic one. It was expressed in the joint venture between the multinationals, domestic capitalists and state's enterprises and not state bureaucrats. At this early stage, Brazil's state's bureaucrats were still free from the influence of the dominant classes. The contention between state bureaucrats and state managers/bourgeoisie was clearly demonstrated by the latter's refusal to "turn over their books to the ministry of finance" (Evans, 1979, p.267).

### ***The guiding principles***

In their attempt to implement a transformatory project, the Brazilian military Junta was guided by principles that were produced through the historical evolution of Brazil's social structure. The current discussion identifies these principles and highlights the way through which they influenced the state's choice of growth policies. These principles could be summarized in the following:

1- Their belief in liberalism and the trust in the private sector as the principal locomotive of the economic growth. General Castello Branco- the head of the Junta- was quoted to have said that "in democracies, governmental action should stimulate the private sector" (Evans, 1979, p.269). His chief economic advisor, Roberto Campos, was "a devout economic liberal who believed that a return to competition was the only way out for Brazil" (Evans, 1979, p.216). Evans summarized this feature by describing the state attitude as "a firm commitment to the principle of private profits, both at the level of ideology and in practice, combined with powerful, predictable state apparatus" (Evans, 1977, p.59). This belief also influenced state attitudes toward the issue of planning. According to Jonathan Fox "The military regime did not establish a central planning mechanism" and "state control is

manifested in Brazil by central ratification of programs designed at the ministerial and enterprise level" ( Fox, 1980, pp. 77, 78). For the fear of being labeled as statist, "even the most comprehensive national plans are merely indicative so far as the business sector is concerned, often coordinating rather than mandatory in relation to state or regional subdivisions." with "no compulsory discipline of implementation" (Campos, 1969, p.320). As will be demonstrated later, this is in sharp contrast to Korea, which relied heavily on planning and on supervisory agencies as a way of intervening in the economy.

2- Their favourable attitude toward the multinationals. Roberto Campos was quoted as having said that "if international firms were the strongest in the competition, so be it" (Evans, 1979, p.216). The new rulers believed in "substantial reliance on foreign enterprises to provide the savings and technical know-how for the creation of advanced industrial sectors" (Baer et al, 1976, p.71). As such, no serious measures were undertaken to establish a domestically generated accumulation process. Contrary to this, Korea enacted numerous legislations to guarantee that the activities of the multinationals enhanced local technological capabilities.

3- Although the military Junta embarked on various measures to control the political stage, the electoral process was, most of the time, allowed to proceed as usual. This is interpreted by the existence of a close association between the military and the traditional class. Again, this is in clear contrast with measures adopted by Korea. The state in Korea dealt with a nascent capitalist class and it faced no challenging foreign capital class. As such, the developmental state in Korea was in firm control of the political process.

Next, we will see how these principles influenced the state's attempts to establish a triple non-alliance and at the same time were not sufficient to sustain it in Brazil.

### ***The triple non-alliance***

The basic objective of this section is to demonstrate the way in which the military junta succeeded in establishing a triple non-alliance interaction. The discussion demonstrates that, in carrying out these measures, the state in Brazil was not less strong or less autonomous than its counterpart in Korea. According to Rhys Jenkins, "In Brazil, the military regime which came to power in 1964 apparently enjoyed a high degree of relative autonomy. It was able to pursue policies which acted against the interest of domestic capital as well as the working class and the mass of the rural population." (Jenkins, 1991, p.203). The discussion emphasizes that the state's measures were directed at strengthening the executive office and driving the remaining figures of the traditional elite out of the ruling seat of the state. The military move was not, however, class motivated. Rather it was against the traditional class control of the state. Remnants of this class were still present in the lower rank of the state (Hagopian, 1994, p.40). That is, the state measures were confined to the political faction of the traditional elite. Contrary to this, Korea's state measures were extended to the local capitalists who were treated, as will be demonstrated later, as "criminals on parole" (Chang, 1993, p.152). Furthermore, the other partner in the triple interaction - the multinationals - were not targeted. In contrary, as we will see later, they were the major beneficiary from the state intervention.

The military move to take charge of the country was inspired by a national objective to transform the Brazilian economy. The new military rulers were indeed "hoping to



fulfill a century-old military dream: to create a national political force out of the mosaic of the state's politics, to discard regional identities and loyalties and to make Brazil a greater power" (Hagopian, 1994, p.41). Their prime mechanism to achieve this dream was to industrialise the nation. In fact "the armed forces have had an active interest in the country's industrialization dating back to the 19<sup>th</sup> century especially in such defense industries as steel and capital goods" (Baer et al., 1976, p.88). Adopting this national objective required state bureaucrats to be free from the influence of the dominant forces (the multinationals and domestic capitalists) to orchestrate a non-alliance form of interaction between state's bureaucrats, domestic capital and the multinationals in the economy. Indeed, the military sought to eliminate "popular input into the political process" (Evans, 1979, p.266).

The new rulers' first move was against the populist movements. The step reflects their adherence to the first guiding principle: that is, their belief in the private sector. The new regime "tamed unions by sacking and jailing militant union leaders". Furthermore, the power base of the union leader known as "*Pelegos*" was transferred to the state. Similar moves were made against populist politicians, such as the Brazilian Labour Party (PTB) and the Progressive Social Party (PSP)" (Hagopian, 1994, p.40).

The next measure toward the TNA enforcement was directed at the traditional politicians. It includes steps to reduce the traditional politicians' role and at the same time enhance the role of the military junta. Although, as the previous section indicated, the traditional elite were not in total control; they were, however, heavily present within the state. The new rulers believed that, in order to achieve their

transformatory project, “the state has to be liberated from the grip of politicians who put personal ambition a head of national interests” (Hagopian, 1994, p.40). However, on this issue the military rulers were divided. The soft-liners, headed by Castello Branco, were against purging “all politicians”. They preferred to work with one of the major existing parties, the National Democratic Union Party (UDN). On the other side stood the hard-liners, who called for the eviction of the entire group of traditional politicians, whom they accused of corruption and economic mismanagement. However, both agreed to a reformed project, the essence of which was to cleanse “the state and the political system of all vestiges of traditional, patronage policies” (Hagopian, 1994, p.41).

The military rulers employed two sets of measures to carry out their state cleansing project. Firstly, the new rulers resorted to ‘fiscal centralization’ in an attempt to uproot the clientelism. As a system, clientelism is described as “the classic mediation for securing societal support for oligarchical and semi-competitive regimes through selective channeling of state resources to state dependent population” (Hagopian, 1994, p.39). Accordingly, through clientelism, the traditional elites - who controlled offices of federal governments in various states - were able to manipulate federal state patronage resources in the form of developmental projects. According to Hagopian, “together, the presence of technocrats in the economic ministries, coupled with fiscal reform, was intended to bring about the demise of traditional politics and to evict traditional political elites from the state” (Hagopian, 1994, p.42).

The second major step to enforce the TNA was to drive out the traditional elite from the state through the introduction of political reform to strengthen the new leaders'

control of the state. Before elaborating on these measures, it is important to mention that the military allowed the electoral process to continue as usual, a move that proved to be very costly and was considered to be one of the main reasons for the failure of the military project itself.

The new rulers embarked on several measures to assert their authority. In April 1964 the military rulers instituted their first act, according to which the president retained unlimited power to rule for 90 days. The Act, furthermore, purged members of the national assembly, as well as several governors.

The president also retained the right to suspend citizens' political rights for a period of ten years. The congress, in 1966, was again cleansed, as punishment for its call for "direct election". Hence, measures to displace old politicians from state's institutions continued unabated. However, these were not targeting the traditional class as a whole, as the other faction-the domestic capitalists-remained unaffected by those measures.

In place of old politicians, military rulers hired technocrats, civilians as well as ex-military personnel. By enacting these measures, the new leaders believed they eliminated any resistance to their program. That is the TNA which was accomplished. Accordingly the economic programme was resumed. Again, the programme was not a clear success. Consequently, the military leaders pushed for further measures. As the presidency of Branco approached its end, the rulers rewrote the constitution, giving the executive branch extreme power to detain lawmakers, administrators and dissidents.

The Costa e Silva presidency that started in 1968 represented a major shift towards authoritarianism. The defeat of presidential requests to remove the immunity from a member of congress who allegedly insulted the army was taken as a pretext to close the congress “indefinitely”. A new Act (the fifth) was instituted. It provided the president with unchallenged and unlimited power to rule. A wave of political repression was consequently unleashed. Hundreds of people lost their political rights. A large number of opposition figures and “intellectuals” were forced into exile. The Supreme Court was also affected, as three judges were removed and its chief “left office” in protest. The widespread civil disorder and a terrain of “terrorist” activities were also taken as justification for more repressive measures. And in February 1969 another institutional-the sixth-act was promulgated (Skidmore, 1973, pp. 6, 9, 14, 15).

The accumulated impact of all these measures culminated in the establishment of a triple non-alliance (TNA). Furthermore, the discussion revealed that, in spite of the strong presence of the traditional and foreign capital classes, the state in Brazil was as strong and autonomous as in Korea, to impose a triple non-alliance interaction.

### ***Intervention mechanisms***

Equipped with the TNA, the state was able to put in place various regulations, programmes and agencies to carry out its economic programme. Again, this ability is not less than that found in Korea. The discussion highlights state's policies in this regard. It is emphasised that, unlike Korea's, those policies gave equal treatment to both local entrepreneurs and the multinationals.

The state as a regulator intervened in the economy through fiscal policies. It manipulated taxation and expenditure to a large extent. For the period of the "economic miracle"(1968-1974), the taxation reached 27 percent of GDP in 1973, whereas the expenditure/GDP ratio reached 32.2 percent. Similarly, the TNA allowed the state to intervene as an economic agent. It undertook this function via various means, principal of which was the central bank. The Banco Central de Brasil performed as an institution to regulate foreign exchange policies. The state in Brazil exercised considerable control over the banking system. It retained a majority share in the largest commercial bank in Brazil- Banco do Brasil . The state also controlled the Banco do Nordeste, the National development Bank (BNDE) and the National Housing Bank (BNH). The state control over the banking system also covered 32 state government commercial and development banks. The TNA features allowed the state to exercise direct control over production, prices and land ownership. For such a purpose, the state established the *autarquias* body (Sugar and Alcohol, Forest products, and Coffee Institutes, the Brazilian Land Reform and Land Development Institute). The establishment of public enterprises was the other effective means of state intervention in the economy. The sectors of electric power generating, steel iron ore, petroleum (Petrobras, Petroquisa), railroad transportation and telecommunication were the domain of state enterprises. State price control was another of the means through which the state asserted its authority over the economy. The state exercised this control through the CIP ( the Conselho Interministerial de Precos) (Baer, et. al. 1973; Baer, et. al. 1976; Evans, 1977).

However, until the start of its economic drive " Brazil has had no explicit policies with reference to the transfer of technology and the development of indigenous

technology" (Baer, et. al. 1973, p.30). This stands in sharp contrast to the policies adopted by Korea. The developmental state in Korea considered the domestication of technology as its top priority.

The discussion just concluded demonstrated the TNA allowed the developmental state in Brazil to establish various agencies and mechanisms that enabled it to intervene easily in the economy. It emphasised that in this feature the state in Brazil was no less powerful than in Korea. However, because the state in Brazil had chosen to give equal treatment to both the local capitalists and the multinationals, the latter benefited the most from the growth process. The next section seeks to associate the TNA with the successful economic drive- the economic miracle of 1968-1974.

### ***The TNA and the Economic Growth***

The objective of this brief discussion is to associate successful economic growth with the existence of the TNA. The previous discussion revealed that, as soon as the military junta assumed power, it immediately embarked on measures to free the state from the control of the traditional class. As such, the Campos – Bulhoes technocratic team moved in quickly to implement its “orthodox” stabilisation programme. The programme featured an “abrupt” cut in money supply, a reduction in spending and a “freeze on wages”. The programme, however, failed to achieve its objectives as economic conditions worsened. The industrial region of Sao Paulo suffered “severe recession”, with employment plummeting drastically (Skidmore, 1973, p.8). In response to the failure the state pushed for further measures to curtail political freedom. As was explained earlier, the second Act was enacted. The measure nullified all existing parties. The president and vice-president were now indirectly elected. And

in 1966 the congress was cleansed of the old politicians, replacing them with fresh loyalist ones. The military rulers believed that these measures would be sufficient to give them the freedom of implementing their economic programme. Accordingly, the Campos programme was resumed. However, it produced another cycle of recession in 1966. Businesses suffered multiple failures. Wages deteriorated in real terms and imports were severely curtailed. The programme, however, succeeded in reducing inflation to 41 percent in 1966 and to 31 percent in 1967, down from the level of 66 percent in 1965 (Skidmore, 1973, pp. 8-15). The state response was another wave of measures (described earlier) toward achieving the TNA. The rulers rewrote the constitution, giving the executive branch of the state further extreme power, and closed the congress indefinitely. This was followed by the fifth act, which gave the president unlimited and unchallenged power to rule. The supreme court was also targeted with cleansing measures. And in 1969 another restrictive act-the sixth-was promulgated. The accumulation of these acts was the establishment of the TNA.

As a result, the stabilisation drive of 1964 finally produced encouraging results. Data for the year 1970 revealed a positive performance in the foreign sector. The level of exports in 1970 reached \$ 2.7 billion, double that of the 1960s. Furthermore, the years of 1969 and 1970 registered a sizeable balance of payments surplus. Foreign reserves recorded a high of \$1.5 billion. As for the period from 1968 to 1973, the economy registered an average annual growth rate of 11.5 percent. In fact, the manufacturing sector increased more rapidly, whereas the inflation level fell from 47.4 percent to 19.3 percent (Aguilar et al, 1984, p.13). This success was hailed as “an impressive record of industrialization” (Evans, 1995, p.64).

The discussion has thus associated economic success with the state's ability to ascertain and enforce the TNA. And, as explained earlier, in undertaking these measures and in manipulating them to initiate a successful economic drive, the state in Brazil is comparably as strong and autonomous as the state in Korea. The remaining question is this: how did the developmental state in Brazil lose the TNA? The previous discussion gave the reasons why the state was unable to sustain the economic "miracle". It was explained that the prime reason was the state's choice not to adopt a strategy that enhances the local enterprises. The state policies treated both local capitalists and the multinationals equally. The competitive advantage of the latter allowed it to reap the benefit of the growth process at the expense of the locals.

### ***The triple alliance***

The causes of Brazilian state's inability to preserve the TNA and the consequent failure to sustain the successful economic growth should be traced back to the guiding principles of the military junta. They could be summarised in the following:

1. The move against the traditional class was partial. The target of the state's measures was the political faction and not the entrepreneurial one. In fact, remnants of the traditional class were still present in the lower rank of the state, waiting to come back to the driving seat.
2. The dominant position of the multinationals was not challenged. On the contrary, the current discussion reveals that the state's policies allowed the multinationals to influence the state's economic priorities.



3. The state lacked effective and competent planning and supervisory agencies.

Accordingly, it was deprived of effective means to intervene in the economy.

4. The state allowed the electoral process to proceed as usual.

The discussion of the current section reveals the way in which the triple alliance was regrouped. The process of triple alliance reestablishment went through two stages. In the first stage, the multinationals and the local capital allied with state managers in an economic triple alliance. And, in the second phase, the two purged the military regime out of state control.

### ***The triple economic alliance***

The triple economic alliance formation began to take shape with the first economic crisis (1964 to 1967). Because of this crisis, the military regime's confidence in liberalism was questioned (Evans, 1979, p.217). The need for state intervention was contemplated. However the state is still heavily inhibited by liberal values. Furthermore, "the state cannot take a purely nationalist stance" against the multinationals "Not only would this put it in conflict with the foreign capital that controls a growing share of the most dynamic sectors of the economy, it would also put the state in conflict with the best organized, most powerful local industrial groups who have themselves formed alliances with the multinationals" (Evans, 1979, p.214). And because of reasons described above, the state lacked competent and powerful supervisory agencies. Thus the only viable option available to the state was creating and strengthening state enterprises as vehicles to influence the economic activities. State enterprises were entrusted to lead the efforts to industrialise the economy.

However, in order to be efficient in accelerating the accumulation process, state enterprises sought joint ventures with multinationals. Indeed, these joint ventures served the multinationals. According to Evans, “it would be difficult for the state to work in service of accumulation without also working for the multinational” (Evans, 1979, p.222).

As such, a triple economic alliance that served the interest of the multinational had been formed. Its partners were the multinationals, the domestic capital, and the state managers.

### ***The triple political alliance***

As indicated earlier, the chances of the reemergence of the triple alliance were not completely eliminated because of adherence of the military to liberalism and their faith in the role of the multinationals. As a result, the state was not prepared to deal with ensuing problems. The international crisis ignited by oil price increases led to a diminishing rate of growth of GNP, rising unemployment, depressed salaries and a growing inflation (Auigar et al., 1984, p.15). One of the main causes of the state’s inability to address these problems was the absence of viable and competent means of intervention. As such, the popularity of the state was greatly impacted on. Accordingly, the sequence of events took a sharp turn. The turning-point for the resurrection of the traditional elite and for the demise of the military transformative project was the humiliating defeat of the state’s party ARENA in the 1974 election.

In that election the MDB opposition party was able to secure 18 seats of out of 22 in the senatorial elections. It also won 44 percent of the chamber of deputies, up from 28

percent. Furthermore, the opposition MDB party dominated five extra seats of state legislature.

The difficulties and the pressures on the military were intensified when it was revealed that the major beneficiaries of its policies were the foreigners. According to Evans (1979, p.220), Tavares and Serra (1973) argued that “the state took up the heavier responsibility of supplying the domestic market at low costs with basic inputs and external economies which were used by MNC’s for their own expansion”. Furthermore, it was revealed that the multinationals were not only the prime beneficiaries but on many occasions, the state gave preferences to foreigners over the locals (Evans, 1979, p.268). As for the state itself, figures showed its heavy presence in the economy. However, it “was still absent from most industrial areas at the close of the boom”. Moreover, this presence was at the expense of local capital (Evans, 1979, pp. 220, 224).

Hence the deteriorating economic conditions and the “denationalisation” of the economy were the major sources of popular resentment against state policies. This popular anger was coupled with dissatisfaction of the partners over the economic alliance. Both factions of the private sectors considered state enterprises as harming their interests. The local participating partners (in the joint ventures) looked at the expansion of state enterprises as constraining their growth potentials, whereas the non-participant members were condemning the role of those enterprises for favouring the multinationals. The multinationals on their part decried the expanding role of the state enterprises. They considered them to have a tendency toward “statism” (Evans, 1979, pp. 213-290).

The resentment against the state was expressed in the above-mentioned stunning defeat of the ruling party. And, since the state was left with no effective means for intervention, it had no choice but to rethink its political alliances. And, in this regard, the only available option was to revive “clientilism”. The state sought to expand “both resource base for the patronage operations and the number of program beneficiaries dependent on state clientelism” (Hagopian, 1994, p.50).

Hence, in the closing years of the military rule, the traditional political elite, instead of being removed, enjoyed a comfortable grip on the political system. The military choice to reform the existing system of clientelism and to continue holding elections, rather than rebuilding it on a new foundation, was a move that cost them heavily.

Furthermore, the military choice not to target the whole traditional class helped the latter to seek refuge in the lower ranks of state institutions. Hagopian maintained that “traditional political elites ...had been partially shunned but nonetheless survived the first decade of bureaucratic authoritarian rule in the lower levels of the state” (Hagopian, 1994, p.40).

After its painful defeat, the military rulers realized that supporting their party ARENA “would require reviving clientelism”. The move indeed meant the re-installment of the traditional class. They “resurrected...the traditional political elite, restoring its members to the top level position in the state.” As an example “the governors nominated by Geisel in 1974 were all civilians and highly placed in the state and local party machines” (Hagopian, 1994, pp. 49-51).

These events declared the loss of the triple non-alliance and the rebirth of the triple alliance between state, local capital and foreign capital, an alliance that was referred to as responsible for derailing the initial successful economic growth of the developmental state in Brazil. As such, multinationals were "able to use their considerable market power to capture even greater shares of the national market and orient development in ways that suit their product lines" (Baer et al., 1976, p.84). The final outcome of the dependent development had, according to Evans "not only left unresolved the fundamental problems of classic dependence, it did not even offer any obvious route to their resolution" (Evans, 1979, p.94).

To conclude, the discussion of the current chapter conducted an historical structural analysis that consolidated the formation of TNA/TA. The triple non-alliance (TNA) could be identified as a form of triple dependency interaction, according to which the state's bureaucrats are shielded from the influence of the multinationals to a degree that enabled the state to initiate successful economic growth process, whereas the triple alliance (TA) could be identified as the form of triple dependency interaction that allows the multinationals-through the locals-to influence the state's bureaucrats in a manner that serves its interests at the expense of national growth objectives. The chapter also highlighted the differences of the policies adopted by Brazil and Korea. It also demonstrated the causes of those differences. The remaining task of the study is to apply the TNA mechanism to analyse Korea's economic experience. The said task is the subject of the next chapters.

## **Chapter Seven**

### **The formation of the triple non-alliance (TNA):**

The current research has so far been completed in the theoretical part. It consolidated the proposed model to account for Korea's economic growth pattern. The hypothesised model is suggested to take the form of triple non-alliance dependency interaction. The last chapter was designated to consolidate the conceptualisation of the triple alliance and the triple non-alliance interactions. The objective of the second part is to apply the triple non-alliance mechanism to analyse Korea's economic performance. The task of the current chapter is to confirm that the structural changes in Korea produced a triple non-alliance form of dependency interaction.

To achieve this objective, the chapter undertakes an analysis of Korean structural evolution from the late years of the Yi dynasty (1392) to the birth of the developmental state in 1961. The analysis traces external changes that stimulated domestic response and examines their impact on the formation of dependency agents. The chapter is divided into several sections. The first covers the years from 1392 to 1910. Throughout these years, the main factor that impacted on domestic evolution was the intense foreign rivalry over Korea, the result of which was the incorporation of Korea into the world economy. This integration unleashed forces of change within Korean political and social institutions. Those changes are discussed in the next section, which covers Japan's annexation of the country, until its final withdrawal in 1945. The section emphasises a process of social stratification in Korea that resulted in the country's political elite being replaced by the Japanese. The latter worked to remove the old bureaucratic class and replace it with a new Japanese-dominated one.

Furthermore, the section stresses the emergence of a Japanese-dominated Korean business community. The discussion also reveals the creation of a Korean working class.

The third section discusses the role of the American Military Government (AMG) that ruled Korea from August 1945 to August 1948. The focus is on the role of the AMG in Korean class formation. It highlights the fact that the AMG unleashed a process of political formation; first, by reinstituting the old bureaucrats; and second, by installing the first Korean ruling elite since the demise of the Yi dynasty. It also reviews the AMG's policy of suppressing the labour-based leftist forces.

The fourth section elaborates on class formation in Korea under the first republic (Syngman Rhee). From 1948 to 1961, the main features of this process were the state's creation of the capitalist class and the recruitment of a loyalist bureaucratic class. The discussion also emphasises the presence of foreign aid as the dominant form of foreign capital. Its main conclusion, however, is the establishment of the triple non-alliance form of interaction of dependency mechanism. A comparison with the Brazilian case is also carried out throughout the discussion.

### **The Yi Dynasty: (1392-1910)**

The current section discusses the evolution of Korean social structure from the late years of the Yi dynasty to the Japanese annexation and reflects on the impact on the power relations of the existing social classes. Four features are distinguished throughout. First, the elaboration describes the Korean social setting. Next, it elaborates on domestic class interaction. Third, the analysis addresses the matter of external intervention. And, finally, the review examines the impact of external factors

on the configuration of Korean social structure. The basic theme throughout this review is the intense rivalry between external powers to secure a dominant position in Korea. The major player was Japan, which finally dominated and annexed the country. The main emphasis of the present discussion, however, is on, first, the integration of Korea into the world economy, and, second, the removal of the ruling royal family and the displacement of the land-based Yangban traditional class. The elaboration also demonstrates the arrival of foreign capital and the beginning of capitalist relations.

### ***Social Setting:***

The Yi dynasty is considered to be one of the longest continuous political entities in human history (Christopher, 1987, p.274). For several centuries, Korea preserved its exceptionally homogeneous language, ethnicity and culture. Throughout all those years, the country enjoyed a highly hierarchical structure. Korean social structure throughout this dynasty consisted of three main classes. First, there were the three combined royal families, unified under the authority of one king. The royal family maintained its control over every aspect of the affairs of the kingdom, be they economic, military or religious. The second class was that of the aristocrats, who were referred to as yangban. This consisted of the state's bureaucrats, intellectuals, military officers and religious figures. The two classes combined represented the ruling elite. Below them was the class of commoners. They were the majority of the population. This class consisted of peasants, handicraft workers and slaves.

This hierarchical structural system was legitimised by Confucianism and, at some period, by Buddhist teachings.



Korea was considered an agricultural country and it is estimated that in 1910 as many as 84% of Korea's population were attached to agriculture and forestry (Christopher, 1987; Amsden, 1989; Barone, 1983; Hamilton, 1986).

Ownership of the land was the basis for the ruling class. The king was the actual owner of the land. He distributed the land to favoured figures in the noble class. The peasants and slaves were exploited to cultivate lands for the ruling class. Consequently, “at the turn of the century around 75 percent of the Korean peasants were full or part tenants” (Hamilton, 1986, p.10).

In this pre-capitalist social setting there is neither a commercial nor a manufacturer class (Kuznets, 1977, p.2). In the Yi dynasty, commercial activities were discouraged by Confuciansim, which “disdained physical labour”. Furthermore, the yangban elite feared that commercialisation of agriculture might lead to changes in the relations of production and, eventually, to the erosion of their power (Lim, 1985, p.33). Currency did not exist until the seventeenth century, cloth and grain being the means of exchange. However, “there was some metropolitan merchant activity and handicraft industry, but most requirements were hand-produced on the farm” (Hamilton, 1986, p.11). There also existed “a number of specialized craftsmen ... (who) worked for the court” (Kuznets, 1977, p.2).

Also, what was absent from the Yi dynasty was a foreign presence. In the early centuries, the Yi dynasty was a “hermit kingdom”, almost completely closed to foreigners. Social interaction was domestically generated. However, as will be

demonstrated below, this situation started to change from the mid-19<sup>th</sup> century because of external forces.

***Domestic interaction:***

In general Korea during this era enjoyed “a remarkable consistency and little change” (Barone, 1983, p.53). However, the empire suffered from “slow decay of the traditional Korean society... exploitation ...corruption and nepotism” (Hamilton, 1986, p.9). The yangban dominated the ruling class. The “higher offices were held only by nobles, and the highest office, that of prime minister, only by a noble sufficiently wealthy to bribe successfully the palace eunuchs and royal concubines” (Kuznets, 1977, p.2). The dynasty during the 16<sup>th</sup> and 17<sup>th</sup> centuries “experienced severe social conflict” (Christopher, 1987, p.275). One major contention was within the ruling class, between the royal family and the yangban. In spite of the fact that the royal family was formally the ruler of the Empire, it depended on the yangban to rule. The balance of the two contending factions of the ruling class leaned towards the yangban (Barone, 1983, p.53).

The yangban elite solidified its position “by legal and de facto inherited status, privileges, land holding, office holding (in central bureaucracy) and utilization of status and economic interests” (Amsden, 1989, p.29).

What was to the advantage of the yangban class vis-à-vis the royal family was its growing numbers. There was “evidence of considerable upward mobility into the noble class during various periods and in various localities” (Christopher, 1987, p.275). The increased number of yangban elite meant that they needed more land to sustain themselves and, of course, the process of grasping more land was at the

expense of the royal family wealth base, which was consequently “eroded” (Barone, 1983, p.54). Indeed, “the major source of state revenue was based on land taxation” and “thus, the increasing erosion of state land by the yangban aristocracy resulted in the collapse of state finance” (Lim, 1985, p.34).

The yangban elite itself, however, suffered from internal division among rival factions. The class was “divided into four hereditary factions” (Kuznets, 1977, p.1). On the other hand, the yangban elite was targeted by “un coordinated” attack from members within the royal household” (Christopher, 1987, p.275). The friction and strife between the two components of the ruling class were translated into heavy burdens on the peasants and slaves. They were “squeezed” to compensate for the loss of revenue for the royal family. As such, many peasants rebelled and left the agricultural land to hide in “mountainous hideouts”. The royal family itself suffered from internal frictions, fightings and “coups d’ etat” (Christopher, 1987, p.275; Barone, 1983, p.54).

However, their stand against the peasant uprising, as well as their shared interest with the royal family, prevented the yangban elite from representing a real threat to the royal family. Being members of the ruling class, “each was dependent on the other for the continuation of his place in the political and social structure” (Amsden, 1989, p.29).

The response of the royal family to this escalating social strife was the adoption of various reforms “to reconsolidate land under the ruling family, keep the yangban in

line, and to prevent peasant uprising from threatening the system” (Barone, 1983, p.54). The royal family succeeded in maintaining the status quo.

The power relations of the Yi dynasty during these years are described by Amsden in the following:

“the balance of power between state and aristocracy pivoted on an impoverished peasantry, the state empowering the land-lords to tax the peasantry, and the landlords protecting the state and providing it with a share of its revenues – but not a large enough share to accumulate surplus” (Amsden, 1989, p.10). Indeed, “the Yi dynasty danced to landlord tunes” (Hamilton, 1986, p.10).

### ***External impacts:***

The current section traces Korea's incorporation into the world economy. Despite the internal instabilities just described, “centralized control was maintained by the royal family and the basic class structure remained intact” (Barone, 1983, p.54). It was external intervention that produced a gradual change in Korean social structure. Although Korea had been targeted by foreign invaders since the eleventh century, it was in the latter two hundred years that the country was subjected to rival foreign forces. By this time, Korea was a closed country. The primary relationship between Korea and the outside world had for many centuries been that with China. Korea's role was that of a dependent country (Shu-Pang), very much like the Confucian relationship of a younger to an older brother. The younger owes allegiance to the older in return for his protection. This relationship continued until 1894, when the Tonghak rebellion broke out.

In the last two hundred years of the Yi dynasty, Korea became the subject of foreign rivalry. The gradual stratification of Korean social structure began with the opening of Korea to the outside world in the years from 1876 to 1910 (Kuznets, 1977, pp. 4-5). Earlier, Korea had maintained a strong navy to defend its coasts against “Japanese pirates”. It was also able to withstand a Japanese invasion in the sixteenth century. And, again, in the seventeenth century the country thwarted a Manchu attack (Christopher, 1987, p.274). In 1866 and 1871, the Koreans defeated American attempts to impose a treaty on Korea. Their ship (General Sherman) was burned near Pyongyang in 1866. The second American attempt, in 1871, also failed, as the fleet which they sent lost the battle against the Koreans. Five years later, the Japanese succeeded, in February 1876, in signing the Kanghwa commercial treaty. The treaty recognized Korea as an independent country. Throughout the 1880s, the United States, Germany and England sought and obtained similar treaties (Kuznets, 1977, p.4).

The rivalries over Korea raged on. In 1894, a Tonghak rebellion against the monarchy broke out. As “a native religion”, Tonghak rapidly spread among peasants and other lower rank people. It was the major driving force of this revolt. It also attracted a faction of resentful yangban and Confucianists (Christopher, 1987, p.275). The objective was to become rid of foreigners. King Kojong requested Chinese troops to intervene, as Korea had an historical association with China. The move prompted a countermove from Japan, which also sent troops. Consequently, a war broke out between the two. The Japanese emerged victorious, ending the historical special relationship between Korea and China.

Japanese intervention in the kingdom's domestic affairs proceeded immediately, even before the signing of the peace treaty of Shimonoseki in 1895. It moved to reform the government, curtailing royal authority and changing ministers. However, shortly after this, and after the king's taking refuge in the Russian legation in 1896, Russia gained influence over the country. It obtained many privileges and began reinforcing the Korean army.

After 1896, the competition between various powers intensified. The fiercest was between Japan and Russia. In 1898 the two countries signed the Nishi-Rosen treaty. Each party respected the others' privileges, as well as recognising Korea's independence. However, the agreement did not prevent either from working to further its interests. The Japanese moved to establish branches of the Bank of Japan in Seoul and Inchon. They also sought to purchase plots in strategically important ports. On the other hand, the Russians made a similar move and obtained fishing agreements, as well as seeking permission to construct various forts to secure routes for the lumber trade out of the *Yalu* River. The Western powers, namely England and France, were also involved in this tense race. An Anglo-Japanese agreement was concluded in 1902; the agreement established an alliance between the two states. The Russian and the French made a countermove by extending their existing alliance to the Far East.

The disputes between Japan and Russia over Korea and Manchuria escalated to breaking point and, in February 1904, the Japanese broke off relations with Russia. They attacked the Russian navy in Port Arthur and Chemulp'o. Formal war between the two states was declared. However, even before its war with Russia, Japan had been working to control Korea. After besieging the palace, Korea was forced to sign

a protocol giving Japan dominance over Korea's domestic affairs. The agreement respected Korean "independence and territorial integrity". Korea was required to refrain from entering into any treaty contrary to the protocol. The Japanese moved to nullify the Emperor's "absolute power". Japanese advisers were appointed to various departments, especially Finance and Foreign Affairs. They were empowered by veto. Japan succeeded in obtaining international recognition of its special interests in Korea. In September 1905 the Treaty of Portsmouth was signed; Japan, Russia, the United States and Great Britain signed the treaty, accepting Japan's considerable interest in economic, political and military fields in Korea. Korea's independence was thus ended. Korea's king, however, opposed any agreement to accept Japanese control. He sought, but failed, to obtain international support. However, under tremendous Japanese pressure, the king agreed to relinquish his position in favour of his son. The next Japanese move was to take over direct running of state affairs.

The Koreans resisted Japanese domination and, in 1909, the first Resident-General in Korea was assassinated. In 1910, the new Resident-General supervised an annexation agreement after the Emperor had "renounced his sovereignty" (Kuznets, 1977, pp. 5-7)

***Impact of the external intervention:***

The external intervention was, in fact, the "major disintegrating force" in the Yi dynasty (Barone, 1983, p.54). The foreign intervention that started with the signing of the 1876 Kanhwa treaty stirred national resistance against foreign domination. The Korean people paid a heavy price for their uprising against the Japanese. Some estimates put the number of Koreans killed in resisting the Japanese at 14,000

persons, out of a population of roughly 12 million. The resistance movements may be classified into two. The first was a peasant-led rebellion, fighting for national liberation and “egalitarianism”. The second was led by Western-educated individuals; they pushed for “the withdrawal of foreign concessions, the scrutiny of royal accounts, the creation of schools and freedom of speech and press” (Amsden, 1989, p.28). Korean students were active participants in this resistance movement from its early days. The most significant impact of the external intervention was on the existing class structure. We have seen earlier that internal frictions and the interaction of power relations among social classes did not alter the existing hierarchical structure of the Yi dynasty. However, the external impact was, indeed, major. Since the treaty of 1876, external forces had greatly impacted on the evolution of the previously stagnant domestic social setting. The process of interaction of external with domestic culminated in the demise of the Yi dynasty and the annexation of Korea as part of the Japanese Empire.

The surrender of the King’s sovereignty signified the demise of the ruling class. The royal family lost its social status and, thus, the ruling class was removed from power and replaced by a Japanese Resident General. The other members of the ruling class - the yangban - accepted Japanese domination, motivated by their desire and hope of preserving their interests and social status. The third class - that of the commoners - had no alternative but to tolerate the foreign occupation. Equally important was the fact that the Japanese occupation and annexation of Korea opened the door for the rapid stratification of the Korean social structure. The next section will cover this further. However, during this era the seeds of these potential changes had already been sown. The beginning of commercial capitalism as a result of external impact was



detected late in the Yi dynasty. However, this did not amount to the spread of a market-oriented system in this agricultural country (Lim, 1985, p.34).

Furthermore, early signs of manufacturing activities may also be traced to the later period of the dynasty. During these years, “metropolitan merchants lent funds to local craftsmen in a form of wage-labor or putting-out system” (Kuznets, 1977, p.2). Later on, in 1905, the Japanese supervised monetary and banking institutions. Japanese banks opened offices in Korea and, by 1909, the Korean Central Bank had been established (Kim and Roemer, 1979, p.3). This led to an argument that “an incipient capitalism was emerging in the late Yi dynasty” (Christopher, 1987, p.275). Because of these developments, Korea became open to foreign capital. In fact, business in Korea (late Yi dynasty) was dominated by foreigners. This is demonstrated by the fact that “a few industries had been developed by foreign interests, notably electric power, lumber and rice milling” (Hamilton, 1986, p.13). Furthermore, the “Americans had built an electric power station and established a gold mine, the Russians had began a match factory before the Russo – Japanese war, ....., and the Japanese founded soy manufacturing, rice refining, electric power, and lumber mill operations – all before 1910” (Kuznets, 1977, p.19).

Thus, the discussion in this section has demonstrated that Korean social structure had been impacted on by external forces. The Japanese occupation generated a major restructuring of the existing social classes. The first major change was the removal of the ruling class from power. The royal family lost its power to rule, its social status and privileges. The second class, the landed elite yangban class, chose to cooperate with the new rulers. The third class, that of the commoners, surrendered to the will of

the occupiers. The discussion also revealed that the beginning of a capitalist class was already in the making. The third conclusion is that foreign capital had also started to arrive.

The review just concluded indicated that Korean integration into the world economy began in 1876, with the signing of the Kangwha agreement. Thereafter, Korea became subject to an intensified international rivalry between the major colonial powers. Geopolitical and security considerations drove the Japanese to seek control of Korea and they were successful in ensuring their security and commercial interests in the country. The Japanese efforts culminated in their annexation of the country as a part of their empire in 1910. Hence, Korea lost its ruling elite. The traditional class (the yangban) decided to collaborate with the Japanese. Their fate and that of state bureaucrats will be further discussed later. The traditional elite were a land-based class. The era under discussion witnessed the beginning of primitive market activities. These activities do not amount to the existence of a capitalist class. Similarly, in later years, foreign capital began to arrive in small amounts. No foreign capital group was identified yet. Thus, the Korean situation was not ripe for the triple interaction. Comparing the Korean case with the Brazilian, a completely opposite picture may be seen. In Brazil, well-defined dependency agents could be identified. The traditional elite in Brazil was a powerful one. To preserve its interests, it forced the declaration of Brazilian independence. Foreign capital was also heavily involved in the Brazilian economy. The Brazilian traditional elite, with the backing of foreign capital, captured the state's bureaucrats. Thus, Brazil, in this era, witnessed the existence of the triple interaction.

The next section continues to examine the evolution of Korean social structure. The emphasis will be on the impact of Japanese policies on the form and the position of the Korean social classes.

### **The Japanese occupation : (1910-1945)**

The previous discussion has demonstrated that external factors greatly impacted on the structural evolution of Korea during the Yi dynasty. These changes culminated in the removal of the royal class and in the displacement of the traditional land-based yangban class. Korean state bureaucrats were also swept away by the Japanese. The elaboration further revealed the non-existence of a domestic capitalist class. As a result, the Japanese became the major driving force behind Korea's social stratification. Their policies were said to have "had a profound effect on the class structure of Korea shaking it out of the stagnation of the Yi dynasty" (Hamilton, 1986, p.19). The prime objective of Japan was to remould the Korean social and economic structure to serve its own strategic interests. The country was rich in agricultural resources, which were vital for the Japanese imperial economy. Korea was considered as a "food grain" basket. It was also designated as a colony for Japanese settlers. Furthermore, Korea, especially the northern part, possessed valuable mineral resources. The country was also looked on as an attractive market for Japanese finished products. Korea was also revealed to have acquired an important geopolitical position for the Japanese Empire (Amsden, 1989, p.52).

The objective of this section is to elaborate on the impact of Japanese policies on the formation of Korean bureaucrats, the entrepreneurial class and the working class. The discussion emphasises two aspects of the Japanese measures. The first is the political dimension of their policies. At this level, the Japanese pursued their earlier efforts to

consolidate their grip on the political institutions by working to remove the remnants of the Korean bureaucrats from the state. A total number of 3645 Korean bureaucrats were removed from their positions in the state. They were replaced with Japanese individuals. The latter "took over most positions of authority and power including positions in government, in business, schools and military" (Barone, 1983, p.59). Some estimates suggest that by 1910 only 55 Korean individuals were assigned to the rank of "Cho Kunin", which equals the rank of section head or vice-head. However, in the years that followed their number was significantly reduced, to reach 6 bureaucrats by 1914. Korean nationals were also restricted from higher positions in security institutions. Indeed, by the early 1940s, only 2.6% of the 8,000 Koreans working in the force were assigned officers' levels. In 1910 the percentage of Korean officials at the rank of Choknin or Sonin was 65.3%; this had decreased to only 18% by 1942 (Haggard and Moon, 1997, p.873). As a result of these and previous measures, Korea was "said to have become a country without a leadership" (Hamilton, 1986, p.19). In fact, both middle and upper classes were almost entirely composed of Japanese citizens.

The second set of Japanese measures was undertaken at the economic level. These measures were the major driving force behind Korean social stratification. This move was described to be "one of separating labour from the land and reconstituting it as an industrial working class. It was at the same time of transforming rentier assets into capital" (Hamilton, 1986, p.29). These policies evolved around two main mechanisms. The first was the land reform, which was conducted on the basis of a land survey decree of August 1912. The reform produced far - reaching consequences for both political and social development that contributed to the economic modernisation of Korea. The political aspect of the reform was manifested in a further

consolidation of Japanese political domination through the weakening of the political and social position of the yangban class. Although the reform introduced "a system of legal guarantees on private ownership of land" which gave the cooperative landed elite title to their land, their position was jeopardised by the new system. They were prevented from using surplus for political purposes – to buy patronage and to build their military strength. Through these measures, the remaining land - based yangban class became economically weak, whilst previous measures had stripped them of their political strength. At the same time, the reform strengthened the wealth base of the new rulers. It allowed the government to absorb "large areas with unclear title of ownership... as revenue sources". It was estimated that the new rulers acquired 354,000 hectares of available land and 163,000 hectares of forest land (Kim and Roemer, 1979, pp. 2-4). A new Japanese land-based class was produced as a result of the land reform. This newly emerging class further eroded the power base of the yangban. According to Amsden, "Japanese landlords - both corporate and individual - may have possessed as much as 50% of Korea's total available land". The new rulers benefited financially from the reform, as it involved a new tax system in agriculture (Amsden, 1989, pp. 53-54).

Another significant result of the land reform was the emergence of a new social class, that of the labourers. Many agricultural families were forced out of their land as a result of "the exactions of landlords, the loss of land tenure through debt or trickery, and the simple inability to scratch a living from tiny plots" (Hamilton, 1986, p.16). The workforce thus forced out by agricultural reform was transformed into wage labourers as a result of industrialisation.

The process of the Japanese-led industrialisation of Korea was the second major factor (after land reform) that fomented the country's social disintegration. As will be demonstrated below, the industrialisation process was initiated to correspond to Japanese needs. Two major results of the industrialisation are identified, these are: the emergence of a Japanese-dominated Korean business group and a massive wage - based Korean working class.

The industrialisation process of Korea under the Japanese was conducted in three phases. The first started immediately after the annexation of the country. The new rulers enacted the corporation law, with the objective of discouraging industrial activities in Korea. The country was to remain a source of agricultural products for Japan. It also sought to prevent any competition with manufacturers in Japan. The law required prior government consent to establish a business outside the agricultural sector in Korea. The law discouraged Japanese businessmen from establishing manufacturing plants in the country. At the same time, it made it impossible for Koreans to build industrial firms. The law was grossly unfair to the extent that it was manipulated to destroy two successful Korean-owned firms (Hamilton, 1986, p.14). It has been concluded that "the decree enabled the Japanese to discourage development of modern manufacturing industries in Korea and furthered their policy of making the Korean colony chief supplier of grains and industrial raw materials to Japan and a market for Japanese manufacture" (Kim and Roemer, 1979, p.3).

However, from 1920 to 1929, the Japanese priority agenda in Korea started to shift, while Korean agricultural resources remained an important objective for the Japanese, encouraging the manufacturing sector to gain an increasing importance. Two causes were behind these changes. First, the change in Japanese attitude was a response to

the “independence demonstration of 1919”. On March 1, Koreans rose up in “a broadly based series of demonstrations and actions across the country in which Japanese property and police stations were attacked”. The Japanese colonial administration, as part of “liberalization measures nullified the 1910 corporation law” (Hamilton, 1986, pp. 14-18). The second reason for this shift was the desire to help Japanese manufacturers utilise the “idle capacity” in their home country. Japanese industries flourished during the First World War and a sharp decline in manufacturing needs followed the end of that war. Thus, outflow of capital from Japan followed. Further measures were adopted such as placing Korea within the Japanese tariff barrier zone. Korea became a site for increasing Japanese manufacturing industries. At this stage, the industrial activities were focusing on manufactured agricultural products. The size of manufacturing units was mainly small and medium.

It is in the period that followed 1920 that a substantial Korean business class began to emerge (Kim and Roemer, 1979, p.4). This is in spite of the fact that Korean entrepreneurs were subject to discriminatory policies from the Japanese administration. They were “excluded from subsidies, exemptions and administrative favours”. Furthermore, the Japanese adopted measures that led to “the forcible destruction of domestic spinning and weaving in Korean villages”. The Korean manufacturing sector was also put in a disadvantageous position vis-à-vis Japanese firms. The latter enjoyed easy access to Japanese banks, which dominated the “investment and monetary system” in Korea.

Thus, the development of social structure in the years from 1920 to 1929 resulted in the emergence of a Korean manufacturing class. The newly emerging class was small and it suffered from the discriminatory policies of the colonial government.

Furthermore, the 1919 Korean uprising forced the Japanese to re-institute Korean bureaucracy “to fill middle- level positions ... so that (by design) it was often the case that Japanese rule had a Korean face” (Hamilton, 1986, p.15).

A further shift in Japanese priorities in Korea took place in the years from 1930 to 1945. Korea during this time became a host for heavy industries. The focus here is on the impact of this shift on the newly-born manufacturing class. Three major developments influenced the shift to heavy industries. The first was the ensuing world crisis of 1929. The crisis prompted the colonial government to enact the law for the regulation of major industry in 1931. The objective was to control industrial activities in Japan to avoid severe competition and bankruptcies. As Korea was excluded from these measures, many Japanese manufacturing firms opened plants in Korea. Then came the Sino-Japanese war, which extended from 1930 to 1937. Industrial production in Korea increased significantly as a direct consequence of the Japanese expanding their activities. Heavy industries became dominant from this stage. The trend to heavy industries was consolidated by the eruption of World War II. Most industrial inputs and the labour force were “forcibly mobilised” in the production of military equipment.

The second major producer of the Japanese-led industrialisation was the transformation of the massive labour force into a "wage-based" working class. It has been demonstrated earlier that land reform measures produced massive numbers of labourers. The subsequent industrialisation from the twenties further increased their numbers. Cities became overcrowded by vast marginalised populations. There was a rapid "urbanisation" move. By 1946, more than 11% lived in cities of 50,000 people. This percentage had been 2.6% in 1910. The number of industrial workers increased



substantially so that, by 1938, the number of wage workers was over 1 million. The majority of them - two thirds - worked in Japanese mining firms or construction industries. During the Second World War, their number increased even further.

The Korean workers occupied the lowest strata of the workforce and, in 1933, 81 per cent of technicians and engineers in Korean manufacturing industries were Japanese. The Koreans also suffered from bad working conditions. They received less than the wages earned by their Japanese counterparts. Their wages had declined in real terms since the thirties. According to some estimates they declined “from a base of 100 in 1910 to 67 in 1940.” However, the main characteristic of the Korean working class was that, in spite of their increasing number, they were prevented from any role in the existing power relations. The general policy of the Japanese was to suppress their demands in the interest of growing industrialisation; they were not allowed to form any kind of association (Hamilton, 1986, pp. 15-17).

Thus, the rapid industrialisation that continued through the 1940s led to an increased and strengthened role of Japanese foreign capital in Korea. It also produced a newly born Korean business group. However, the class was small in size and engaged in the light manufacturing sector. It suffered from unfair treatment and was subjected to discriminatory policies from the coloniser. The growth of industrialisation also led to the creation of a wage-based workers’ class. The Korean workforce grew substantially in number. However, it was mainly unskilled and low paid and suffered from worsening working conditions. Nor were workers allowed to organise and they suffered under the repressive policies of the colonial government.

The impact of the Japanese occupation was said to have “introduced capitalist social relations on a wide scale; it had sapped the traditional legitimacy of the landlord-

tenant relationship in the popular consciousness and had destroyed the authority of the old ruling class. Korea had irreversibly entered a period of profound change” (Hamilton, 1986, p.20).

***Economic impact:***

This section highlights the impact of Japanese colonial rule on the Korean economy (Kim and Rormer, 1979, pp. 6-20). Table (1) reveals the annual net value of commodity-products. It shows that the average rose by about 2.4 times for the years of 1910/12-1938/40. For the first set of years, the value was 682 million yen. By 1938/40 it had reached 1,658 million yen in 1938 fixed prices. The average annual growth rate of this value was 3.5 per cent for the first period (1910/12-1919/21). It, however, declined to 3.1 per cent in the following two periods – 1919/21-1929/31 and 1929/31-1938/40.

**Table (1): Average Annual Net Value of Commodity-Products by Industrial Origin, 1910-1940<sup>a</sup>**

(million yen at 1936 prices)						
Period	Agriculture	Forestry	Fishery	Mining	Manufacturing	Total
Amounts						
1910-12	601	39	14	8	20	682
1919-21	800	30	31	11	57	929
1929-31	953	84	72	20	127	1,256
1938-40	981 <sup>b</sup>	125	114	119	319	1,658
Composition (%)						
1910-12	88.1	5.7	2.1	1.2	2.9	100.0
1919-21	86.1	3.3	3.3	1.2	6.1	100.0

1929-31	75.9	6.7	5.7	1.6	10.1	100.0
1938-40	59.2	7.5	6.9	7.2	19.2	100.0
Annual Average Growth Rate (%)						
1910/12- 1919/21	3.2	-3.0	9.2	3.6	12.3	3.5
1919/21- 1929/31	1.6	10.8	8.8	6.2	8.3	3.1
1929/31- 1938/40	0.3	4.5	5.2	21.9	10.8	3.1
1910/12- 1938/40	1.8	4.2	7.8	10.1	10.4	3.2

Source: compiled from data given in Sang-Chul Suh, pp. 170-171 cited in Kim Roemer, 1979, pp. 6-20.

Notes: <sup>a</sup>The net value of commodity-product is equivalent to gross value added in each sector.

<sup>b</sup>This average value was calculated excluding the value for 1939 in order to eliminate the effect of unusual crop failure in that year.

The overall growth rate of net agricultural products for the entire period was only 1.8 per cent, whereas mining and manufacturing grew at higher rates, about 10 per cent during the entire period.

On commodity-products, the data is available only for the years 1911-1939, indicated in table (2). The table reveals that percapita commodity-product increased by 1.6 per cent annually, from 45.5 yen in 1911-1939 to 71.2 yen in 1938-40. These are in 1936 fixed prices.

**Table (2): Growth Rates of Population and Per Capita Net Commodity-Product, 1911-1944**

Population			Per Capita Commodity Product	
Year	Persons (1,000)	Annual growth Rate (%)	Yen at 1936 prices	Annual growth Rate (%)
1911	15,002	-	45.5	-
1920	17,264	1.6	53.8	1.9
1930	20,438	1.7	61.5	1.3
1939	23,293	1.5	71.2	1.6
1944	25,133	1.5	-	-
Average For				
1911-39)		(1.6)		(1.6)

Source: For population statistics, Sang-Chul Suh, p. 41. Cited in Kim and Roemer, 1979, pp. 6-20.

Notes: average annual net value of commodity-product (total) given in Table (1) divided by population given in this table. The years for which population figures are given represent mid-points of the periods for which average annual net value of commodity-product is given in Table (1).

Table (1) also shows that the commodity-product share of mining and manufacturing rapidly increased from only 4 per cent of the total commodity-product in 1910-12 to almost 26 per cent by 1938-40; the manufacturing sector expanded from 3 per cent of the total to a high of almost 20 per cent. The share of agriculture, forestry, and fishing declined from 96 per cent of commodity-product in 1910-20 to about 74 per cent by 1938-40.

During the earlier years of colonial rule, about half of manufacturing goods were produced by households. However, by 1935-38 this share had declined to about 28 per cent.

This reflects the acceleration in military industries. Within manufacturing itself, Table (3) shows that for 1930, 1935 and 1940 the processed food sector's share was the largest, 32 percent in 1931. However, it declined to about 20 per cent in 1940; on the contrary, chemicals' share increased from about 17 per cent in 1931 to more than double, 36 per cent, in 1941. The metal industry also increased its share of production during 1931-1940, rising from 3 to 7 per cent.

**Table (3): Manufacturing production by Major Sector, 1931-1939**

Current million yen)						
	<u>1931</u>		<u>1935</u>		<u>1940</u>	
	Amount	%	Amount	%	Amount	%
Textiles	32.9	13.0	82.3	13.6	232.2	12.6
Metal industry	6.5	2.6	27.0	4.5	129.7	7.0
Machinery	7.9	3.1	11.5	1.9	76.7	4.2
Ceramics (incl. cement)	9.0	3.6	17.6	2.9	61.7	3.3
Chemicals	42.6	16.8	147.8	24.5	669.4	36.3
Wood products	4.8	1.9	8.2	1.4	35.0	1.9
Printing & publishing	8.8	3.5	12.7	2.1	19.1	1.0
Processed food	81.0	32.0	165.4	27.4	373.4	20.3
Gas & electrical products	16.1	6.4	39.8	6.6	-	-
Other manufacturing	43.2	17.1	91.0	15.1	246.5	13.4
Total <sup>a</sup>	252.8	100.0	603.3	100.0	1,843.7	100.0
(Light industry) <sup>b</sup>	170.7	67.5	359.6	59.6	906.2	49.2
(Heavy & chemical ind.) <sup>c</sup>	82.1	32.5	243.7	40.4	937.4	50.8

Source: Zenkoku Keizai Chosa Kikan Rengokai, Chosen Keizai Nenpo, 1942; and Keijo Nipposha,

Chosen Nenkan 1941-1942. Cited in Kim and Roemer, 1979, p.11

Notes: <sup>a</sup>These totals are not consistent with the constant price data given in Table (1), not only because the totals are in current prices, but also because they exclude some handicraft products and products from government-owned factories.

<sup>b</sup>Includes textiles, wood products, printing and publishing, processed food, and other manufacturing.

<sup>c</sup>Includes all industries not classified as light industry.

For heavy industries as opposed to light industries, Table (3) further demonstrates that heavy industry products expanded from about 33 per cent to 51 per cent between 1931 and 1940, while light industry declined from 68 to 49 per cent. This change reflects the emphasis on military industries in the late 1930s.

Table (4) shows trends in exports and imports during the colonial rule. During the entire period 1910-1940, Korean exports and imports increased faster than the gross commodity product. The share of exports expanded from 4 per cent in 1910-1912 to about 21 per cent in 1938-1940. Similarly, the share of imports increased from 11 per cent to 29 per cent of the gross commodity-product between 1910-1912 and 1938-1940. Thus, Korea registered a trade deficit for the entire colonial era.

**Table (4): Average Annual Commodity Exports and Imports and Their Proportions to Total Commodity-Product, 1910-1940**

(million yen at 1936 prices)					
	Annual average increase				
	(%)				
	1910-1912	1919-1921	1929-1931	1938-1940	1910/12- 1938/40
Total exports	34.3	148.7	314.1	591.6	10.7
(Exports to Japan)	(25.4)	(132.4)	(288.5)	(457.8)	(10.9)
Total imports	91.6	176.3	376.9	820.7	8.1
(Imports from Japan)	(57.0)	(112.5)	(289.6)	(718.9)	(9.5)
Total					
commodity-product	811	1,225	1,893	2,823	4.6
(Gross value)					
Exports/commodity-product (%)	4.2	12.1	16.6	21.0	-
(Exports to Japan)	(3.1)	(10.8)	15.2)	(16.2)	-
Imports/commodity-product (%)	11.3	14.4	19.9	29.1	
(Imports from Japan)	(7.0)	(9.2)	(15.3)	(25.5)	
Exports to Japan/Total exports (%)	74.1	89.1	91.8	77.4	
Imports from Japan/Total imports (%)	62.3	63.8	76.8	87.6	

Source: The gross value of commodity-product is from Table (1). Commodity-exports and imports data are from BOK, Economic Review, 1949, IV, 51, and are deflated by the wholesale price index (1936=100). Cited in Kim and Roemer, 1979, p.12.

Korean trading was mainly with Japan. The table reveals that exports to Japan accounted for 74 to 92 per cent of the total exports during the colonial period. Similarly, Korean imports from Japan increased from 62 per cent of total imports in 1910-1912 to about 88 per cent by 1938-1940. Furthermore, Table (5) reveals that during the colonial period Korean exports were mainly agricultural products.

By contrast Korea imported finished manufactures and semi-finished manufactures.

**Table (5): Composition of Exports and Imports by Major Commodity Category, 1915-1940**

<b>(Percent)</b>						
<b>Exports</b>	<b>1915</b>	<b>1920</b>	<b>1925</b>	<b>1930</b>	<b>1935</b>	<b>1940</b>
Foodstuffs, crude	18.4	58.1	64.9	55.6	53.0	27.5
Processed food	0.5	1.0	2.2	5.4	3.2	4.3
Crude materials	9.9	15.8	10.1	16.5	16.3	20.8
Semi-manufactures	10.9	6.8	12.1	16.6	16.2	29.6
Finished manufactures	60.3	18.2	10.7	5.8	11.3	17.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
(million yen)	(50.2)	(197.0)	(341.6)	(266.5)	(550.8)	(947.8)
<b>Imports</b>						
Foodstuffs, crude	4.7	15.2	24.4	13.0	2.8	8.7
Processed food	8.6	5.2	5.7	6.2	4.3	3.5



Crude materials	1.6	17.5	11.9	19.6	13.5	9.1
Semi-manufactures	20.9	16.1	22.2	12.9	10.1	12.9
Finished manufactures	64.2	46.1	35.7	48.2	69.4	65.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
(million yen)	(59.7)	(249.3)	(340.0)	(367.0)	(659.4)	(1536.4)

Source: Compiled from current price data given in BOK, Annual Economic Review of Korea, 1948, 111, 50-51. Cited in Kim and Roemer, 1979, p.14)

This confirms the view that Korea served as a source of agricultural material for Japan and a market for the latter's manufactures.

This brief review of Korean economic indicators during colonial rule reveals an impressive result. It indicates, however, that these economic activities were undertaken to serve the strategic interest of Japan. Korea's geopolitical location served Japanese national security. The Japanese remoulded Korea's economy and society to serve the imperial ambitions of Japan.

The next section attempts to explore the role of Korean nationals in these economic activities.

#### ***Impact on Korean development:***

The "substantial" economic development of the colonial era just elaborated on did not benefit the Korean population. Table (6) compares Japanese foreign capital to Korean capital. It shows that the total paid-in capital of Japanese firms constituted about 89 per cent of the total at the end of 1938. However, the table reveals that Japanese establishments accounted for only 58 per cent of all business establishments in Korea.

This implies that Japanese firms were fewer in number but very large in size. The table further indicates that the average paid-in capital for Korean firms was less than one fifth of the average Japanese.

In manufacturing, the difference is substantial. As indicated in Table (6) the paid-in capital of Japanese firms accounted for about 88 per cent (Korean 12.3 per cent)

**Table (6): Composition of Business Establishments in Korea by Nationality of Owners, End of 1938**

(current thousand yen)									
Korean controlled				Japanese controlled			Total		
Sector	No. of firms	Paid-in capital <sup>a</sup>	Paid-in capital per firm	No. of firms	Paid-in capital <sup>a</sup>	Paid-in capital per firm	No. of firms	Paid-in capital <sup>a</sup>	Paid-in capital per firm
Agriculture & forestry	86 (33)	13,451 (20.7)	156.4	179	51,563	288.1	265	65,014	245.3
Fishery	27 (28)	915 (6.3)	33.9	69	13,686	198.3	96	14,601	152.1
Mining	29 (19)	12,449 (6.8)	429.3	121	171,120	1,414.2	150	183,569	1,223.8
Manufacturing	740 (48)	30,198 (12.3)	40.8	804	214,705	267.0	1,544	244,903	158.6
Electricity	0	0	0.0	16	213,065	13,316.6	16	213,063	13,316.6

	(0)	(0)							
Transport & storage	258 (49)	7,400 (6.9)	28.7	274	90,790	331.4	532	98,190	184.6
Banking & insurance	98	10,233	104.4	77	76,705	996.2	175	86,938	496.8
Commerce	846 (45)	23,395 (26.2)	27.7	1,050	65,754	62.6	1,896	89,149	47.0
Miscellaneous	194 (26)	24,619 (28.7)	126.9	545	61,234	112.4	739	85,853	116.2
Total	2,278	122,660	53.8	3,135	958,622	305.8	5,413	1,081,282	199.8

Source: compiled from data given in Ki-jum Cho, p.447. Cited in Kim and Roemer, 1979, pp 15, 16.

Note: <sup>a</sup>Figures in parenthesis indicate percentage share in total number of firms or paid-in capital within Korea.

Table (7), based on data for 1940, indicates that the Japanese dominated all sub-sectors within manufacturing, except printing and machinery. Korean capital had a negligible output of gas and electrical appliances, electronics and the metal industries.

**Table (7): Authorized Capital of Manufacturing Establishments by Nationality of Owners, End of 1940<sup>a</sup>**

(current million yen)					
	Korean		Japanese		Total
Printing & publishing	1.5	(43) <sup>b</sup>	2.0	(57.1) <sup>b</sup>	3.5
Metal	6.1	(1.6)	373.0	(98.4)	379.1
Machinery	61.5	(42.0)	85.1	(58.0)	146.6
Chemicals	1.0	(0.4)	276.3	(99.6)	277.3

Gas & electrical appliances	0.0	(0.0)	553.0	(100.0)	553.0
Ceramics	0.0	(0.0)	53.2	(100.0)	53.2
Textiles	14.0	(15.5)	76.6	(84.5)	90.6
Wood products	5.5	(10.5)	47.0	(89.5)	52.5
Processed foods	5.3	(6.7)	73.8	(93.3)	79.1
Others	7.0	(7.7)	83.5	(92.3)	90.5
Total	101.9	(5.9)	1,623.5	(94.1)	1,725.4

Source: BOK, Annual Economic Review of Korea, 1948. Cited in Kim and Roemer, 1979, p.17.

Notes: <sup>a</sup>Including only manufacturing establishments whose authorised capital is 1 million yen and over.

<sup>b</sup>Figures in parentheses indicate share in total authorised capital of each sector.

Similar trends were found for manpower. Table (8) reveals that, by 1944, technical manpower was dominated by the Japanese. Korean technicians accounted for only 19 per cent of the total in manufacturing, construction and public utilities, whereas their presence in the sub-high technology industry was even lower, only 11 per cent. The share reaches over 30 per cent only in the sectors of printing and publishing, wood products, processed food and miscellaneous others.

**Table (8) Technical Manpower in Korea, 1944**

(numbers of persons)			
	Total	Korean	Ratio of Korean to total (%)
Metal industry	1,214	133	11
Machinery & tools	609	150	25
Chemicals	2,004	222	11
Ceramics	245	48	20
Textiles	484	132	27
Wood products	99	32	32

Processed food	336	121	36
Printing & publishing	56	24	43
Gas, electricity & water supply	991	190	19
Civil engineering	2,347	551	24
Others	91	29	32
Total	8,476	1,632	19

Source: BOK, Annual Review of Korea, 1948, 1, 100 Cited in Kim and Roemer, 1979, p.18.

Table (9) reveals the occupations of Koreans in the economy. It shows that in 1939 about 73 per cent of the total population was engaged in agriculture and forestry. By contrast, the Japanese presence dominated in government, commerce and manufacturing. In spite of the fact that they represent about 3 per cent of the total population of Korea, their share in manufacturing, transport and communication and government and individual services ranged from 14 to 27 per cent of the total.

**Table (9): Population of Korea by Occupation of Family Head, 1939**

	Total population		Japanese Residents		Ratio of Japanese to total (%)
	1,000s	Composition (%)	1,000s	Composition (%)	
Agriculture & forestry	16,531	72.5	33	5.1	0.2
Fishery	347	1.5	10	1.5	2.9
Mining	347	1.5	19	2.9	5.5
Manufacturing	723	3.2	119	18.3	16.5
Commerce	1,665	7.3	135	20.8	8.1
Government & individual services	922	4.0	248	38.2	26.9
Transport &	266	1.2	38	5.8	14.3

communication					
Other occupations	1,591	7.0	25	3.9	1.6
Unemployed	409	1.8	23	3.5	5.6
Total	22,801	100.0	650	100.0	2.9

Source: Ki-pin Cho, p.377. Cited in Kim and Roemer, 1979, p.19.

The above-mentioned data constitute a remarkable economic indicator of Korean economy during the Japanese presence. However, economic growth was directed to serve the interests of the Japanese Empire. The Japanese occupied higher positions in both the government and manufacturing sectors, as compared to Koreans. Furthermore, the living standard of the Korean population, indeed, deteriorated during this era. While net commodity-product increased by 1.6 per cent annually, the per-capita annual consumption of rice decreased to 80.2 from 111.5 kilograms between 1912 and 1944. By contrast, Japanese per capita annual consumption of rice in Japan stood at 157 kilograms.

### **Social class configuration:**

The discussion so far could be summarised in the following: first, the years from 1392 to 1876 of the dynasty era did not alter the centralized yongban-dominated social structure, which was left almost completely intact. Second, the elaboration revealed that the process of social disintegration began with the signing in 1876 of the Kanhwa treaty with Japan. The treaty opened Korea to the outside world. It led to an intensification of competition among foreign powers seeking to promote their economic and political interests in the country. The process culminated in the Japanese occupation and annexation of Korea in 1910. Third, the discussion showed that the Japanese liquidated the existing ruling class and displaced the yangban

bureaucracy from the state. Fourth, the colonial government next embarked on an aggressive policy of restructuring Korea's institutions and economy, in a manner conducive to serving its economic and political objectives. Fifth, the process of reforming Korea's structure established capitalist social relations. New classes thus emerged, such as domestic capitalists as well as a wage labour class. Sixth, simultaneously, the process increased the presence and dominance of Japanese foreign capital in Korea.

Seventh, the review indicated substantial economic growth. However, the growth was mainly Japanese-generated to serve the interests of Japan. The overall standard of living of Koreans deteriorated, in spite of this economic growth.

To conclude, the discussion demonstrated the absence of triple interaction among domestic dependency agents in Korea's economy. The state was held by the Japanese colonisers. Its bureaucrats were mainly Japanese. The Koreans' presence in the bureaucratic system was negligible, whereas the domestic capitalist class was almost entirely dominated by foreigners. The Japanese measures to modernise the country consolidated a Korean business class but its role was minor and irrelevant. By this time, Brazil, on the other hand, enjoyed a very active triple interchange, with a heavily influential traditional elite. The next section covers the events shaping Korean social structure from 1945 to 1948. It reviews the American Military Government's role in Korea's class formation.

### **The years from 1945 to 1948: (The American Military Government)**

The last section concluded that Korea became an annexed country, lacking a domestic ruling elite. The country was also run through a Japanese bureaucratic mechanism,

with only a tiny number of low-rank Korean officials. The Japanese capitalist class dominated the economic activities of Korea at the time. A small Korean business group existed in some commercial activities. It was also demonstrated that the process of Japanese-led stratification of Korea's social structure produced a large Korean labour force.

The current section seeks to trace the impact of The American Military Government (AMG) on the social structure described above. The discussion starts with a brief review of the Korean situation after the Japanese withdrawal.

***Japanese withdrawal:***

The defeat of the Japanese in the Second World War and their abrupt withdrawal represent another major destabilising event affecting Korea's economic and social structure. The withdrawal meant the elimination of the Japanese ruling class. It also translated into the demise of the bureaucratic elite. The Japanese capitalist class also immediately left the country as well. On the other hand, the Korean business group remained in the country. However, it was of a small size and was negatively affected by the halt in economic activities.

The Japanese withdrawal also resulted in the absence of managerial skills, as well as a highly-skilled Japanese workforce. The country also suffered from the separation at the 38 latitude into an industrial North and an agricultural South. Furthermore, one of the major negative events was the severance of Korea's ties with the yen-dominated economic bloc.



The post-war era enhanced the geopolitical position of Korea, which again became a focus of superpower rivalry (USSR and USA). This reality was an important contributing factor that shaped future events in Korea.

Most relevant, however, is that the immediate Japanese departure left Korean society polarised. On the one hand stood forces of the left that were based within the labour force; they were a major power in the immediate post-withdrawal period. They gained popularity as a result of their leading the struggle against the Japanese (Hamilton, 1986, p.19). Because of their sacrifices, the left movements enjoyed strong support among Koreans. Millions of Koreans became members of peasant movements, as well as of labour unions. By August 1945, the National Council of Labour Unions (Chun Dyung), closely associated with the communist party (Choson), was able to recruit the number of 574,475 activists. To fill the vacancies after the Japanese defeat and withdrawal, the left organised the so-called people's committees that included numbers of nationalists and conservatives. At one stage, those committees took charge of almost half the country (the south). They started to exercise the act of rule, by capturing and disarming the Japanese. They worked to release Koreans from prison and began to retaliate and punish the Koreans who had cooperated with the colonisers. The people's committees took over existing industries and organised transportation and communications. Immediately after the Japanese surrender, 42 out of 50 factories were in operation, owing to their efforts. They went even further and devised plans for land distribution. The committees, which included "moderate nationalists", declared the Korean People's Republic in Seoul on September 6, 1945.

At the other end stood the conservative forces, consisting of landlords and segments of the Korean population who had chosen to cooperate with the Japanese. The

Japanese rulers changed their "arrogant" policies towards the Korean populations after the 1919 independence movement. This policy attracted, besides the landlord class, some "gradualist nationalists" to their side. Those factions were greatly discredited in the eyes of the Koreans and were "tarnished" as collaborators.

The polarisation was exacerbated by the revenge against these landlords, who were targeted to suffer "killings" and "seizure of their land" (Hamilton, 1986, pp. 19-24; Minns, 2001, pp. 1029-30; Haggard, 1990, p.52).

The dominance of the forces of the left proved to be short-lived, however, owing to the arrival of the Americans. According to Hamilton, the activities of these committees and the attitude of the newly-born People's Republic "sent a shiver of fear through the propertied class and those others who had swum with the Japanese imperial tide" (Hamilton, 1986, p.21).

### ***The American Military Government (AMG):***

American intervention and occupation of Korea (South) represented the second and most important force that influenced Korean social structures for decades to come. Three policies may be identified in this American intervention: their move against the forces of the left, their process of economic reconstruction and their political reconstruction. The current discussion focuses on the formation of Korean dependency agents, namely the ruling class (including the bureaucrats), the domestic capitalist class and foreign capital.

A few weeks after the Japanese surrender, Korea (South) had a new American Military Government (AMG). Influenced by its anti-communist doctrine, the new administration sided with the old conservative forces. The People's Republic was

declared illegal, along with new local administrations. Similarly, the Military Government worked to replace people's committees and seized back Japanese properties. The American Military Government re-instituted the old bureaucrats to fill state institutions. It brought back the Japanese-associated Korean policemen to man the security apparatus. The Korean population resented these measures and expressed their hatred of the American administration through various "popular" movements against the local administration and the police force (Hamilton, 1986, p.24). A well-known revolt is referred to "as the autumn" movement of 1946. More than a quarter of a million workers were involved in a general strike. In October 1946, policemen were attacked and mutilated in Teagu. The American Military Government's response was ferocious. The movement was suppressed and, in the course of this, more than 1,000 activists were killed. Union leaders and members were either arrested or fled to the North. Some 30,000 members were jailed, including 11,000 trade union leaders. The membership of the National Council of Labour Unions decreased from over half a million to a mere 2,465 members (Minns, 2001, pp. 1029-30).

Having dealt with the immediate challenge to its authority, the new military government worked to rebuild the state's political and economic institutions.

### ***Economic rebuilding:***

The contribution of the United States to rebuilding Korea continued for several decades to come. This section reviews the role of The American Military Government (AMG), which lasted for three years (from August 1945 to August 1948). The objectives of the United States were, first, to sustain the Korean population and to restore basic economic activities. Second were objectives which were long-term: "1) to establish a free and independent Korea; 2) to make Korea strong enough to be a

stabilising factor in Asia; and 3) to make the country a showcase of democracy in Asia” (Kruger, 1979, p.12). The focus of this review is to trace the impact of AMG policies on the formation of the Korean ruling class. By the time of assuming power, the AMG had inherited one part of a divided country. The South was suffering from a deteriorating economic situation. The political impact of the Japanese defeat and their immediate withdrawal has just been summarised. The country faced a sudden population increase of 2.3 million refugees and repatriated Korean citizens from Japan. The worsening of the educational system was also one of the major problems facing the country. Furthermore, Korea was also suffering from "hyper-inflation". Although the inflation was inherited from the Japanese era, it escalated as a result of AMG policies. The currency in circulation increased by 77 per cent in four months only, between August 15 and the end of November 1945 (Kim and Roemer, 1979, pp. 25-27). These problems produced an acute food crisis. According to some estimates, rice production decreased on average by 9.3 per cent for 1945 and 1946, as compared to 1940 and 1944. Similarly, the production of barley was 52 per cent lower in 1945-1948 than the level in 1940-1944. Industrial production sustained a sharp decline as well. Table (10) shows that total manufacturing production in 1948 amounted to 52.7 million won as compared to 307.4 million won in 1939, a reduction of 82.9%. Furthermore, the number of industrial and construction plants decreased to 4,500 in 1947, which was less than half of those that existed in 1943 (10,065).

Next, the discussion turns to elaborate on the AMG policies for dealing with Korean problems and seeks to focus on their impact on the domestic capitalist class. The AMG employed three major tools to address deteriorating economic conditions. First, it undertook a partial land reform directed at the Japanese-held lands. These lands were previously held by the Oriental Development Company and individual Japanese

landlords. The AMG turned them into the newly-established "government-run new Korea company" (Kuznets, 1977, p.30). After the hesitation of Koreans to enforce land reform, in March 1948, the Military Government ordained the abolition of the new Korea company and established "a national land administration". From then, the disposition of the previously held Japanese lands began. By September of the same year, "more than 96 percent of agricultural land formerly owned by the Japanese" was distributed (Mason, 1980, p.169).

As this measure was directed against the former Japanese landlord, it had no impact on the existing Korean landlords or on the capitalist class. The execution of the other part of the land reform, which was intended to address lands held by Korean landlords, was left to the newly established Korean government.

The second measure conducted by the AMG was the dispersal of Japanese "vested properties". Immediately after it took over, the AMG began to register these properties. At a later stage, in spring 1947, the process of selling them started. No real success was achieved. Two reasons were advanced as explanations of this failure, first, the lack of "qualified" purchasers and, second, the absence of a conducive investment environment at the time (Kuznets, 1977, p.31). As a consequence, the majority of them stayed in government possession. Therefore, this act, like the previous one, contributed nothing to the position of the existing local entrepreneurs.

The third and most important contribution of the AMG was the provision of aid. The AMG intervened to relieve Korean citizens through Government Appropriation for Relief in Occupied Areas (GARIOA). The GARIOA was an emergency relief programme, the majority of which was in the form of "food, fertilizer, clothing, food and other commodities" (Mason, 1980, p.168). Only 14 per cent of it went to

rebuilding activities. Through this programme the AMG provided about \$500 millions over the years from 1945 to 1948. The programme served the basic humanitarian needs of the population. It was directed at "1) prevention of starvation and diseases; 2) increasing agricultural outputs; and 3) the provision of basic consumer goods" (Krueger, 1979, p.13). Table (10) reveals the commodity composition of GARIOA impact for the years from 1945 to 1949. Through this programme, the AMG imported from more than \$170 million worth of consumer goods from 1946 to 1948.

By 1949, it was clear that the AMG had succeeded in achieving its immediate objective, that of averting starvation and diseases. More than that, the AMG policies had produced an improvement in the economic performance.

**Table (10): Change in Manufacturing Production between 1939 and 1948, South Korea**

(1948 constant million won <sup>a</sup> )					
	1939		1948		% Change
	Amount	%	Amount	%	1948/1939
Textiles	118.8	32.1	21.6	41.0	-82
Metals	2.3	0.6	2.2	4.2	-4
Machinery (incl.gas &elec.products)	8.3	2.2	3.4	6.5	-59
Ceramics	6.6	1.8	1.4	2.7	-79
Chemicals	84.0	22.7	15.2	28.8	-82
Printing & publishing	8.5	2.3	1.6	3.0	-81
Processed foods	72.1	19.5	6.6	12.5	-91
Wood products	6.8	1.8	0.7	1.3	-89
Others	63.0	17.0	n.a.	n.a.	-
Total	370.4	100.0	52.7	100.0	-85.8
(Total excl. other	(307.4)		(52.7)		(-82.9)

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products)

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Source: 1939 data are from Table (17) and 1948 data from BOK, *Economic Review, 1949, p.4*. Cited in Kim and Roemer, 1979, p.26

Table (11) reveals that the production of major commodities began to recover from 1947 to 1949. The recovery was described as "fairly rapid until the Korean war" (Kim and Roemer, 1979, p.27). Similarly, on Korean trade, table (12) indicates a recovery for the years from 1946 to 1949, although its size was negligible.

As with previous policies, the provision of aid through the GARIOA programme was of no real contribution to the local entrepreneurs. Three reasons could be advanced in this regard. First, GARIOA was mainly an emergency relief programme for the distribution of basic consumer needs. Second, the programme was supervised directly by the AMG administration; hence it was not possible to manipulate it for political purposes, as would have been the case under Korean administration. Third, the majority of the manufacturing activities were undertaken through plants run by the state (Japanese vested properties).

It was revealed earlier that the domestic Korean businessmen were small in number and were engaged in marginal commercial activities. Moreover, the number of manufacturing industries declined to less than half of what it had been in 1943. Another indicator of the irrelevancy of local commercial activities was the fact that a large amount of "private foreign trade" was carried out via barter (Kuznets, 1977, p.37).

The above-mentioned economic achievements of the AMG administration set the stage for embarking on the next phase of economic reconstruction; this enhanced the

economic performance further. The stage was marked by a shift in American aid policies from being provided solely on a humanitarian basis to including developmental components. In fact, in 1948 the American administration "concluded that the U.S. Military Government had accomplished its limited economic objectives fairly successfully". Thus, the content of "aid was changed accordingly to give greater emphasis to production inputs and less to relief supplies" (Mason, 1980, p.248).

Accordingly, the Economic Cooperation Administration (ECA) by now had replaced GARIOA in providing aid assistance. The ECA aid programme retained a dual purpose. It continued GARIOA-type supplies and, at the same time, "drew up a proposal for a three-year reconstruction which was explicitly developmental" (Krueger, 1979, p.15). Throughout the years from 1949 to 1951, it spent more than \$100 million dollars (see Table (2). This shift - as will be discussed later - represented a good opportunity to fuel economic activities and forge the subsequent consolidation of the newly emerging capitalist class. However, as will be indicated later, the programme was suspended, owing to the eruption of the Korean War.

### ***Political rebuilding:***

Along with economic rebuilding, the AMG supervised a reconstruction process of Korea's political institutions. The current section reviews this process. It concludes that AMG efforts produced the first Korean ruling class (including domestic bureaucrats) since the demise of the Yi dynasty.

The process of political rebuilding began immediately after the arrival of U.S. forces in Korea and the establishment of the AMG administration (Hamilton, 1986, pp. 20-23). After the Japanese surrender, Korea lacked any viable domestic institutions. However, there existed three political forces. Domestically, the labour-based



communist-led organisations were strong, popular and well organised. As discussed earlier, their power was destroyed by the AMG because of their communist orientation. The second force was that of the conservatives: landlords, businessmen, and bureaucrats who had collaborated with the Japanese. They were favoured by the AMG, which reinstituted them in government positions and the security apparatus. The process declared the rebirth of a new Korean bureaucratic class, under American rule. This group was organised by the Korean Democratic Party (KDP). The third force was the members of the Korean government in exile, founded by "nationalists activists" abroad. This force was led by Syngman Rhee and enjoyed the support of many thousands of members who had returned home. The objective of the AMG was transitory: to supervise the birth of an independent Korean state. As indicated earlier, in the internal strife between the communists and conservatives within Korea, the AMG stood in support of the latter. However, influenced by the need to regain public confidence, the AMG opted to work with Syngman Rhee. After the elimination of the left, the political stage was now shared between the conservatives of the KDP and the Rhee national society group. In spite of being tainted as collaborators, the conservatives in the KDP were accepted as political partners, as an alternative to the communists. Furthermore, their wealth and possessions gained during the Japanese era enhanced their chances of political participation.

In preparation for the general elections of 1948, the AMG put in place an interim legislative body, half of which was elected and the other half of which was appointed. In 1948, the United Nations Temporary Commission on Korea (UNTCOK) supervised a general election that brought Syngman Rhee to power. Two thirds of the assembly's seats were controlled by the KDP and Syngman Rhee supporters.

Syngman Rhee was, consequently, elected as the chairman of the legislative, paving the road for him to be the first Korean head of state since the Yi dynasty.

To conclude, the AMG reconstruction process produced Korean rulers. Earlier it has been demonstrated that the AMG-initiated process reinstalled domestic bureaucrats to state positions. The AMG policies, on the other hand, suppressed the working class. It was also indicated that the AMG economic reconstruction process brought in foreign capital in the form of aid. Furthermore, the Japanese departure cleared the way for the Korean capitalist class to operate without foreign capital domination.

Thus, the AMG measures unleashed the triple dependency agents. The next section seeks to analyse the fate of these newly born classes and to define the form of their interaction.

### **The triple non-alliance (TNA): The years from 1948 to 1961**

The previous discussion indicated that Korean class formation was put in motion by the AMG. Korea now has its domestic rulers, local bureaucrats and domestic business class. It was also revealed that foreign capital contributed significantly to the economic and political rebuilding; however, it was in the form of foreign assistance. The current section traces the process of class formation in order to identify the form of interaction of various classes, including foreign capital. The section covers the years from the first republic in 1948 to the birth of the developmental state in 1961. Two processes are distinguished throughout. First, there is an elaboration on the continuation of political consolidation. This seeks to identify forces that influenced the consolidation of the ruling elite, the bureaucratic class and the capitalist class. The second process distinguished is that of economic reconstruction; in this, the role of

foreign capital in the economy was dominant. However, since this was in the form of aid, foreign capital was not in a position to influence other domestic classes.

***Political consolidation:***

The basic feature of the political consolidation process in Korea was that the capitalist class was a state creature. In order to consolidate its position of dominance, the state recruited loyal bureaucrats and, at the same time, favoured certain entrepreneurs in exchange for their financial and political support of the newly-formed regime. Thus, the capitalist class in Korea was consolidated by state policies and nourished under the state's supportive measures. Hence, although this represents an alliance between the state's bureaucrats and the local capitalist class, the upper hand in this case was with the state. As revealed earlier, Brazilian dependency demonstrated a state being influenced by the domestic capitalist class in alliance with foreign capital. The next section brings in foreign capital and evaluates its role in the domestic class alliance.

It is important to begin by describing the existing social forces. As has just been mentioned, the labour force was stripped of its political power and remained suppressed as a result of the devastating blow it suffered at the hands of the AMG. The new administration of Rhee continued the policy of cleansing, by purging the remnant of communists from the state's institutions, including the military and the police. His measures extended to other institutions, such as the press and the education system. In less than a year, nearly 90,000 persons were jailed. A new rising force of bureaucrats arose, who had cooperated with the Japanese and a Japanese-recruited police force. These bureaucrats enjoyed wide support from Rhee, who depended on them to consolidate his rule. Economically, this newly reborn class was "more powerful than ever since it did not exist to serve private capital but controlled

most of the economy directly itself" (Hamilton, 1986, p.23). The other group was that of the Korean business class that was in existence during the Japanese industrialisation process. Their activities were impacted on as a result of deteriorating economic conditions. However, they had the means and the skill to operate actively and to play a prominent part in the economic activity. The third group was that of the landed elite, who were gathered politically under the banner of the Korean Democratic Party. These were to become part of the capitalist class, utilising their land-based wealth. The last segment of the capitalist class was the "thrusting entrepreneurs". They were the actual managers who ran the ex-Japanese factories and had the opportunity to take them over. All these forces were merged by state policies to constitute a newly formed capitalist class. Three state-manipulated instruments were the driving forces behind capitalist class formation. The first was the second part of the land reform which was finally instituted in March 1950. The reform was, interestingly, adopted by a landed-elite-controlled National Assembly, overruling Rhee's objection. Indeed, this meant that the class destroyed its own base of strength. However, the move was looked on as being a carefully calculated one. The landed elite wanted to improve its polluted reputation as having collaborated with the Japanese rulers. Furthermore, the issue of land reform became a pressing one in view of the reform conducted in the North. Thirdly, the landed elite had had sufficient time since the promulgation of the first part of reform in 1948 to arrange selling their properties before reform took effect. It was estimated that 570,000 hectares were acquired by tenants in private deals with landlords, as compared to 330,000 hectares affected by the reform. Fourthly, the return of land ownership had fallen sharply after the war, owing to AMG policies. According to some estimates, landlords received only 7 per cent of land output in post-war years, as compared to 50 per cent earlier.

Finally, the compensation looked "financially attractive" being in the form of government bonds that could be used to purchase confiscated Japanese factories. The impact of the land reform was to weaken further the remaining traditional elite. It was gradually transformed into a business class, seeking to invest its compensation in business activities.

The second mechanism through which the state influenced the formation of the Korean capitalist class was the dispersal of ex-Japanese properties. As indicated earlier, the AMG had attempted to sell these properties with no real success. However, land reform measures associated government compensatory bonds with the purchase of those properties. Prospective buyers were also encouraged by pricing them "well below" their real value. These properties constituted a vehicle for new entrepreneurs to join the rank of entrepreneurship. Those who were managing these properties were able to acquire them through buying government bonds at low prices. The state also contributed to a capitalist class formation by providing favoured businessmen with soft, low interest loans in exchange for political support and they thrived as successful members of the newly forming capitalist class (Hamilton, 1986, pp. 23, 24, 31). The inflow of U.S. aid, and the foreign exchange associated with construction aid, represented other valuable sources of "windfall" fortune for loyal private capitalists.

### **The Korean War:**

This nascent political class formation received a devastating setback with the eruption of the Korean War. On June 25, 1950, North Korea's forces launched a massive military invasion, occupying almost all of South Korea. The war, which lasted for

more than three years, ending in July 1953, produced "extreme economic disorganization and social chaos" (Kim and Roemer, 1979, pp. 30-34).

The first immediate consequence of the war was that it swept away the newly-born ruling class (including the bureaucrats). The second major result of the war was also the uprooting of the capitalist class through material and physical destruction and the consequent disruption of economic activities. One million of the population was reported to have suffered from the war. Some figures have estimated those killed during the fighting at around 166,000, whereas 98,000 were executed. The rest were injured, missing or abducted.

Table (13) reveals the non-military physical losses. It shows that total losses to structures, buildings, equipments and other assets reached 41.2 billion won. This amounted to 86 per cent of the 1953 gross national product. The private industrial sector constituted a 20 per cent share of the said losses.

**Table (13): Korean War Damage by Economic Sector, June 25, 1950-July 27, 1953**

	(billion won at July 1953 prices)				
	Buildings	Equipment	Furniture	Other Movables	Total
Private industry	2.77	2.75	1.53	1.27	8.32
Agriculture & forestry	.10	.06	.02	.87	1.05
Fishery	.03	.10	.01	0	.14
Mining	.09	.09	.08	.01	.27
Manufacturing	1.12	1.99	.64	.25	4.00
Construction	.08	.01	.01	0	.10
Electricity	.05	.32	.10	.01	.48
Commerce	.80	.10	.38	.05	1.36

Others	.50	.08	.29	.05	.92
<b>Dyke &amp; irrigation facilities</b>	0	.23	0	0	.23
Transport facilities	.06	.94	0	0	1.00
Railroads	.03	.30	0	0	.33
Highway	0	.57	0	0	.57
Ports & <b>harbours</b>	.03	.07	0	0	.10
Gov't facilities	2.76	.38	.67	0	3.80
Financial institutions	.19	.02	.06	2.45	2.72
Educational facilities	4.08	3.64	.54	0	8.26
Medical facilities	.15	.08	.11	0	.34
Religious, welfare & other facilities	.34	.03	.06	0	.43
Private dwellings	7.93	0	0	8.20	16.13
Total	18.28 <sup>a</sup>	8.07	2.97	11.92	41.23
(\$billion) <sup>b</sup>	(1.36)	(0.60)	(0.22)	(0.89)	(3.07)

Source: BOK, *Annual Economic Review, 1955*, Statistics-16. Cited in Kim and Roemer, 1979, p.32.

Notes: <sup>a</sup>Equivalent to approximately 15.5 million p'yong (1'yong=3.3 m<sup>2</sup>) in terms of total floor space damaged.

<sup>b</sup>The U.S. dollar equivalents of war damages were obtained by using the implicit exchange rate of 13.4 won per \$1.00 U.S. for exports and imports given in the Bank of Korea's national account data for 1953

Table (14) summarises the size of foreign relief and aid imports through the war. It reveals a gradual increase from almost \$59 million in 1950 to \$194 million in 1953.

**Table (14): Summary of Foreign Relief Goods and Economic Aid Received, 1945-1953**

U.S. \$1,000s)
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US Government						
	Total	GARIOA	ECA SEC	& ICA	CRIC	UNKRA
1945	4,934	4,934	-	-	-	-
1946	49,496	49,496	-	-	-	-
1947	175,371	175,371	-	-	-	-
1948	179,593	179,593	-	-	-	-
1949	116,509	92,703	23,806	-	-	-
1950	58,706	-	49,330	-	9,376	-
1951	106,542	-	31,972	-	74,448	122
1952	161,327	-	3,824	-	155,534	1,969
1953	194,170	-	232	5,571	158,787	29,580

Source: BOK, *Economic Statistics Yearbook, 1961*. Cited in Kim and Roemer, 1979, p.34.

The impact of the war was translated into a temporary halt in the process of class and capitalist formation. It also displaced the Korean ruling class and destroyed the material base of the newly forming capitalist class.

The war also stopped the second phase of the Korean reconstruction programme, which had been about to start. At the strategical level, the war prompted a strategical shift in the American position with regard to Korea. On the recommendation of the Tasca mission, Korea gained an increasingly important position in U.S. strategic interests. This was demonstrated by Eisenhower's adoption of a policy of "unilateral" aid assistance, replacing multinational institutions (Mason, 1986, p.179). This was translated into an increased American involvement in Korean political and economic affairs.



After the temporary halt, capitalist class consolidation resumed. The continuation of the war, despite the economic and physical devastation, represented a good opportunity for state-supported "profiteers". The U.S. aid, especially that which associated with military supplies, assumed a centre stage in this process. The U.S. aid-associated foreign exchange allocated to "selected" entrepreneurs allowed them to reap huge profits. When the war ended, the state's role in promoting the domestic capitalist class was exercised through aid-financed construction projects. Later on, the beginning of import substitution industrialisation represented another opportunity for the capitalist class to benefit from the state's policy (Hamilton, 1986, p.34). The import replacement strategies necessitated state-adopted measures which, in turn, contributed to the enhancement of the local capitalist class. Besides foreign exchange allocation, the state adopted a multiple exchange rate. It also instituted increased tariff levels to offset the harm incurred by local producers by over-valued exchange rates. Some local industries enjoyed tariff allowances as well as import restrictions, such as quotas and taxes.

Referring to the role of aid in capitalist class formation, Kyong-Dong Kim (1976) is quoted to have stated that "with some private capital in hand, they sought the best opportunities for economic ventures in the existing political economy- i.e. in foreign aid. The best access to this source was the use of political connections" (Hamilton, 1986, p.32).

With regard to the role of the state in this process, Jones and Sakong (1980) have maintained that "a major characteristic of Korean entrepreneurship in the fifties was that it was far easier to make money from government-derived favours than from

productive activity and entrepreneurs naturally followed their pocket books” (Hamilton, 1986, p.33).

The state's policy of helping private capital to grow is summarised by Haggard in the following:

The possession of foreign exchange and aid goods at considerably less than their market value presented an opportunity for pure arbitrage to those favoured traders willing to provide kickbacks to the liberal party. Rhee’s control over imported grains and other goods allowed him to distribute largesse directly to government employees and others, protecting them from inflation. Domestic firms profited as well, purchasing raw materials supplied as part of the U.S. aid programme at an over-valued official exchange rate and selling finished goods at prices that reflected scarcity values. The selective allocation of loans and the non-competitive award of government and U.S. military contracts were additional means of favouring supporters. The liberal party even invested directly in private projects receiving U.S. aid (Haggard, 1990, p.57).

To conclude, this discussion has produced three main results. First, it revealed an early process of private capital and state bureaucrat class formation. Second, the process was strongly influenced and supervised by the state. And, finally, the dominant position in the association between the state and the newly-born capitalist class was retained by the former.

Next, the discussion brings in the role of foreign capital: i.e. the foreign aid to complete the chain of the triple interaction.

### **Foreign capital:**

The discussion has so far confirmed the existence of a nascent capitalist class. It has also revealed that the state's ruling class was a newly-born one. And that the capitalist class was consolidated through state's policies. The elaboration of the current section addresses the third member of dependency interaction.

According to the dependency model, foreign capital is the third component of the dependency mechanism. It has been held responsible for the detraction of economic development in developing countries. However, foreign capital is an important ingredient in any attempt to modernise developing countries. What counts is the form in which foreign capital is associated with other dependency factors. The current section addresses foreign capital. It seeks to confirm that in the case under consideration foreign capital engagement with other elements was in a non-alliance form. The discussion emphasises the type and the extent of foreign capital involvement in the Korean economy. Second, it focuses on its association with the existing social classes, mainly the domestic capitalist class.

The elaboration begins with summarising the economic condition of Korea by the end of the Korean War. Next, it identifies economic reconstruction objectives. Third, the discussion highlights the economic policy adopted. It also reveals the extent of the contribution of foreign capital to economic activities. It concludes that foreign aid was the form of foreign capital that generated economic activities in Korea at that time.

Figures on economic conditions reveal that, as the war reached stalemate during the last two years (1952 and 1953), Korea's economy began to recover. Table (11) shows that the average production index for major commodities (excluding tungsten) decreased from 200 in 1949 to 133 in 1950 and, again, to 99.4 in 1951. However, in

the last two years of the war, the index recovered to 165 in 1952 and 209 in 1953.

Foreign trade revealed a similar trend.

**Table (11): Production Indexes of Major Commodities, 1946-1953**

Commodity Item	1946	1947	1948	1949	1950	1951	1952	1953
Rice	100	115	123	122	121	94	77	117
Wheat & barley	100	90	95	123	127	74	106	125
Anthracite coal	100	169	281	347	222	44	175	269
Tungsten ore	100	353	394	413	112	327	1,106	2,347
Salt	100	87	113	225	208	99	241	238
Processed marine products	100	72	61	118	52	61	61	78
Cigarettes & tobacco	100	237	296	367	280	316	480	433
Raw silk	100	100	91	92	46	66	70	112
Cotton yarn	100	109	115	247	191	111	188	257
Cotton cloth	100	119	79	230	198	116	154	216
Paper & paper products	100	83	84	213	150	62	266	261
Laundry soap	100	7	141	197	164	268	316	310
Cement	100	172	212	225	108	68	339	390
Chinaware	100	107	150	419	303	274	356	330
Nails	100	598	595	865	716	225	569	1,114
Transformers	100	93	74	41	14	53	51	57
Light bulbs	100	163	162	127	49	35	30	68
Electric power	100	109	217	291	182	140	282	327
Average index <sup>a</sup>	100	115.1	148.8	208.8	131.8	106.2	183.6	239.6
Average index <sup>a</sup> (excl. tungsten)	100	107.8	140.5	200.6	133.1	99.4	165.2	209.5

Source: Charles R. Frank, Jr., Kwang Suk Kim, and Larry E. Westphal, *Foreign Trade Regimes and Economic*

*Development: South Korea* (New York, 1975). Production indexes for some commodities were taken

directly from BOK, *Annual Economic Review, 1955*, and indexes for other commodities were compiled from annual output figures in quantity terms given in the same Bank of Korea review. Cited in Kim and Roemer, 1979, p.29.

Note: <sup>a</sup>An unweighted geometric mean.

Table (12) reveals that exports more than doubled from 2 million won in 1951 to 4.27 in 1952 and rose 6.7 in 1953. Similarly, imports increased from 1.5 million in 1950 to 37.59 million in 1953. Thus it has been concluded that, by the end of the war in July, 1953, "domestic economic activities no longer faced the severe dislocation of people and industrial facilities typical of 1950-1951" (Kim and Roemer, 1979, p.29).

**Table (12): Merchandise Exports and Imports for South Korea, 1940-1953<sup>a</sup>**

(million of won)					
	Current Prices		Seoul Wholesale price index (1947=100)		1947 Constant prices
	Exports <sup>b</sup>	Imports <sup>b</sup>			Imports
1940 (half)	0.48	0.77	0.4	118.75	192.50
1946	0.05	0.16	55.0	0.09	0.29
1947	1.11	2.09	100.0	1.11	2.09
1948	7.20	8.86	162.9	4.42	5.44
1949	11.27	14.74	222.8	5.06	6.62
1950	32.57 <sup>c</sup>	5.21 <sup>c</sup>	348.0 <sup>d</sup>	9.36 <sup>c</sup>	1.50 <sup>c</sup>
1951	45.91	121.83	2,194.1 <sup>c</sup>	2.09	5.55
1952	194.96	704.42	4,570.8 <sup>e</sup>	4.27	15.41
1953	398.72	2,237.01	5,951.0	6.70	37.59

Source: BOK, *Economic Review, 1949*, IV, 51, and BOK, *Annual Economic Review: 1955*. Cited in Kim and Roemer, 1979, p.31.

Notes: <sup>a</sup>Trade volumes for 1940 represent a half of all Korean exports and imports. The trade data for 1946-1953 include only private and government trade, and thus exclude aid-financed imports, transactions with North Korea and smuggling.

<sup>b</sup>Exports and imports were originally valued in won (yen in 1940) on the basis of f.o.b. export or c.i.f. import prices until March 1951 and thereafter on the basis of domestic market prices (tariffs, domestic taxes and trade margins were subtracted from domestic prices to estimate the price of imports).

<sup>c</sup>Imports and exports made through Inch on and Seoul Customs Offices during March-June 1950 were not included because of data missing from the war.

<sup>d</sup>Average index for June 1950.

<sup>e</sup>Average index for April-December in Pusan.

However, compared to the early years (1940s), overall economic conditions deteriorated as a result of the war. Table (15) indicates that the total commodity-product decreased by 27% in 1953, compared to 1940. Similarly, the table demonstrates that net per capita product for the same years decreased by almost 44 per cent.

**Table (15): Change in Net Commodity-Product Between 1940 and 1953, South Korea**

	(1953 constant billion won)				% change
	1940 <sup>a</sup>		1953		1953/1940
Agriculture	26.44	(70.2)	21.20	(76.8)	-19.8
Forestry	2.62	(6.9)	1.16	(4.2)	-55.7
Fishery	3.38	(9.0)	0.43	(1.6)	-87.3
Mining	0.84	(2.2)	0.53	(1.9)	-36.9
Manufacturing	4.40	(11.7)	4.28	(15.5)	-2.7

Total commodity product (net)	37.68	(100.0)	27.60	(100.0)	-26.8
Gross national product	n.a.		48.18		-
Population (1,000s)	15,627		20,268		29.7
Per capita net commodity product (won)	2,411		1,362		-43.5
Per capita GNP (won)	n.a.		2,377		-

Source: Table 12 and BOK, *National Income Statistics Yearbook*, 1973. Cited in Kim and Roemer, 1979, p.35.

Given the deterioration in economic conditions just described, the most pressing and immediate objective was rebuilding the damaged infrastructure and restoring the industrial capabilities. This objective took precedence over economic growth.

On the recommendation of the Nathan Report, the state adopted an inward looking, easy import-substitution industrialisation (Mason, 1980, p.94). To finance economic activities, the state could not depend on domestic savings because, as a result of the devastating war, individual incomes were too low for the state to mobilise domestic resources. Similarly, finance through attracting foreign investments (direct or indirect) was not possible, for the same reason. Thus, foreign assistance was the only available source of economic financing. This is the most important and distinguishing feature of Korea's dependent development.

This foreign assistance was the prime contributor to the economic activities in this period. Table (16) shows that, for the years from 1953 to 1961, total foreign

assistance (both military and economic) reached \$4139.9 million. More than half of it (\$2579.2) was allocated for economic purposes.

**Table (16) Ratios of Aid Imports and Net Foreign Saving to GNP, Total Imports, and Fixed Capital Formation 16 AND 17 ARE REVERSED IN INDEX**

	1953-62	1963-64	1965-74
<b>Ratios to GNP of:</b>			
Total imports	11.7	15.1	26.7
Fixed capital formation	10.5	12.7	22.7
Foreign savings	9.1	9.6	9.5
Aid imports	8.1	6.5	4.4
<b>Ratios to total imports of:</b>			
Foreign savings	78	64	36
Aid imports	69	41	17
<b>Ratios to Fixed Capital Formation of:</b>			
Foreign savings	88	75	42
Aid imports	77	51	20

Source: Derived from Table 43 and 44. Cited in Mason et al.,1980,p.185.

The extent of the contribution of foreign economic assistance to the economic activities is indicated in Table (17). This shows that, for the years from 1953 to 1962, foreign assistance financed almost 70 per cent of all imports, whereas its contribution to fixed capital formation reached 80 per cent.



**Table (17): Summary of Economic and Military Assistance to South Korea from the United States**

(\$million for U.S. fiscal years)

	1946-52	1953-61	1962-69	1970-76	Total
Economic assistance	666.8	2,579.2	1,658.2	963.6	5,745.4
Military assistance	12.3	1,560.7	2,501.3	2,797.4	6,847.3
Total	679.1	4,139.9	4,159.5	3,761.0	12,592.7

Source: U.S. Government, Agency for International Development, "U.S. Overseas Loans and Grants and Assistance from International Organizations," Washington D.C., July 1, 1945-September 30, 1976. Cited in Mason, et al., 1980, 182.

This means that, on the eve of the Korean developmental state, the dominant form of foreign capital was foreign assistance. Foreign aid entailed cost-free finance. The economy in Korea completed its infrastructure and was ready for take-off without any financial obligation. Furthermore, owing to its nature, foreign assistance does not seek to "capture" a state's bureaucrats. It also has no interest in allying with the domestic capitalist class.

Hence, the association between state bureaucrats, local capitalists and foreign capital was in a non-alliance form. Consequently, the triple non-alliance (TNA) could be identified as a form of dependency interaction, according to which foreign capital did not dominate the state's bureaucrats and domestic capital, and that this allowed the state to ascertain an "embedded autonomy" of its bureaucrats in the economy as a mechanism to undertake its interventionist policies to accomplish its transformatory

project. At this stage, however, the TNA was not associated with economic growth. The reason is that there was no developmental state with an identifiable transformatory project. Furthermore, foreign investment - a major component of economic growth - was also absent.

In the case of Brazil, the multinational corporations were the dominant form of capital. Moreover, in the case of Korea, the ruling elite, the state's bureaucrats and the domestic capitalist class were all nascent classes. They lacked a solid position in society, whereas Brazil, on the other hand, enjoyed well-defined, deeply entrenched classes. However, at a certain time of the developmental state, the military Junta freed the state from the grip of an alliance of domestic capital with foreign capital. Thus, the Brazilian dependency interaction at a certain stage was in a non-alliance form as well. This, however, changed, and the triple alliance was re-installed, derailing the economic growth process.

To conclude, the chapter has demonstrated that Korea's social configuration produced a triple non-alliance form of dependency interaction. The next chapter seeks to relate the triple non-alliance (TNA) to Korean economic growth achievement. The accomplishment of this objective involves, first, reviewing state measures to reinforce the TNA; second, manipulating it to ascertain an embedded autonomy of its bureaucrats; and, lastly, revealing the way in which balanced bureaucratic involvement promoted a sound economic growth process.

## **Chapter Eight**

### **The triple non-alliance (TNA) mechanism**

The last chapter confirmed that, in the ascendance of the developmental state, the form of dependency interaction which existed was the triple non-alliance (TNA). The chapter identified the TNA as the one in which foreign capital lacks the ability to ally with domestic capital and to influence the state's policies, allowing the latter to establish an "embedded autonomy" of its bureaucrats, and thus embark on its economic growth project. This is the first step to substantiating our proposition that the triple non-alliance is the model that accounts for Korea's economic growth pattern.

Through the triple non-alliance (TNA) the developmental state seeks to undertake its interventionist role in order to accomplish its objective of attaining successful economic growth. The aim of the current chapter is to undertake the second step, that of confirming the association between the triple non-alliance and the economic performance of Korea, that is, to explain the dependency mechanism through which the state establishes the embedded autonomy of its bureaucrats and to relate the latter to the country's economic success. Three main points are emphasised throughout the discussion; first, the way in which the developmental state reinforced the TNA; second, the steps adopted by the state to attain the semi-embeddedness of its bureaucrats; and third, the relevance of the triple non-alliance model to Korea's pattern of economic growth.

For such a purpose, the chapter is divided into two main parts. The first explains the way in which the state consolidated the triple non-alliance. The consolidation success was demonstrated through the establishment of an "embedded autonomy" form of bureaucrats. It was also exhibited in the firm grip of the new rulers on the political and security institutions of the state. Thirdly, the deepening of the TNA was manifested in the state's subordination of private entrepreneurs. The fourth demonstration of TNA consolidation was in the containment of foreign capital activities. And, finally, the state enhanced its position through suppressing labour and other social classes.

The second part attempts to associate the state's successful policies with the existence of TNA state-related features, that is, to prove the assumed viability of the model (according to critical naturalist methodology). This, in turn, is accomplished in two stages. The first demonstrates the state's success in initiating the economic growth drive, whereas the second discusses state policies to sustain this growth through dealing with the emerging crises.

## **1. TNA consolidation:**

### ***Background:***

The social and political instability that engulfed Korea after the fall of the Rhee regime prompted a military group of 5,000 men to cross the Han River in May 1961. The coup put an end to the newly-elected government of Chang Myon. The movement declared the birth of the developmental state in Korea. The military junta assumed a transformatory agenda that changed the course of Korea's destiny. Before

embarking on an analysis of developmental state policy, brief background information is presented below.

There are three distinguishing features of Korea's social and economic scene. The first feature was demonstrated in the discussion of the previous chapter. The association among dependency agents was in the form of a triple non-alliance, according to which no deep-rooted classes of bureaucrats, local capital or foreign capital were present. This was true of other social classes as well.

The second feature that faced the new rulers was the stagnant economic situation. According to some estimates, economic growth fell sharply for the years from 1957 to 1960. The situation led to very "gloomy" and pessimistic expectations by the Americans about the future of the Korean economy.

How the deterioration in the economic situation came about can be explained by the type of economic strategy adopted throughout those years. Immediately after the Korean War, friction erupted between the Korean government of Syngman Rhee and the U.S. administration over which economic strategy to follow.

The Korean side argued for a modernised economy, based on heavy industry. They also sought to finance it through foreign aid, whereas the U.S. side, worried about the inflationary impact of industrial investment, was pushing for "self sufficiency". The latter were obviously influenced by the Nathan Report -- mentioned earlier. The disagreement between the two extended to the mechanisms of resources mobilisation, as well as their allocation. The Korean side sought external resources (aid), coupled with domestic inflationary tools, whereas the Americans sought to mobilise domestic resources through increased and improved taxes and through policies that enhanced private savings also; on the resource allocation front, the Koreans wanted investment

in heavy industries as well as building the infrastructure. On the U.S. side, the focus was on labour-intensive industries, infrastructure, overhauling the light industries and enlarging the current industrial capacity.

The U.S. retained the upper hand in this dispute. It manipulated aid as a tool to enforce the selection and implementation of its policies. Therefore, stabilisation was the economic policy that was adopted through the years of the 1950s up to the early 1960s. It was based on reconstruction and stabilisation. Its basic feature was to control fiscal deficit and monetary expansion. The strategy involved an inward-looking industrialisation and, by the early 1960s, the import substitution policy had exhausted its potential. This fact was manifested in the completion of import replacement of intermediate as well as non-durable commodities. The policy also finished the reconstruction of Korea's targeted infrastructure. Another feature of this transitional era was the permanent threat by the U.S.A. to reduce its economic aid gradually, moving towards terminating it completely. As just mentioned, the aid was manipulated to pressurise the Korean government towards adopting certain economic strategies. Furthermore, as will be described later, the aid reduction threat was one of the motives behind the new regime's adoption of an alternative economic strategy, as well as being behind its attempt to seek other international sources of finance (Mason, 1980, pp. 192, 193, 195).

The final important issue in the current background was the perception of economic development of the new ruler (Park Chung Hee). It has been argued that Park's vision and his personal skills have shaped the course of economic development in Korea. According to Adelman and Morris (1967), "the extent to which economic change can take place is significantly conditioned by a single political characteristic, the extent of

leadership commitment to economic development" (Mason, 1980, p.251). The first point in Park's attitude towards economic development was his strong belief in economic growth as a driving force behind the overall well-being of his nation.

Quoted in Amsden, Park maintained that "we must take a great leap forward toward economic growth". This idea contrasted with the prevailing economic stabilisation programme adopted so far. The second issue in his perception of economic growth was the trust in market mechanisms. He urged his countrymen to "utilize to the maximum extent the merits usually introduced by the price machinery of free competition" (Amsden, 1989, p.49). Park was also influenced by Japanese "Meiji reform", which was based on large enterprises.

The "mammoth" corporation - according to Park - was "indispensable at the moment, to our country" as it performed "not only a decisive role in economic development and elevation living standards, but further brings about changes in the structure of society and economy". Finally, Park was a firm advocate of a strong state role in "supplanting market forces by state power". One of the major state tasks was the issue of "coordination and supervisory guidance, by the state of mammoth economic strength" (Amsden,1989,p.50). In this regard, "the regime's guiding economic philosophy was not really a free market economy, but a guided capitalism" (Koo and Kim, 1992, p.126). The upcoming discussion testifies fully to the adherence of Park to his declared objectives. By raising these aspects of Park's leadership, the research is not suggesting that Korea's success is explained by these characteristics. There were countless numbers of leaders in the developing world who shared with Park these features of leadership.

**State power and autonomy:**

The previous discussion has demonstrated that the new ruler, Park Chung Hee, who assumed authority in May 1961, had his own agenda for the economic development of Korea. The prevailing stabilisation and inward-looking strategy had exhausted all its potential and, as a result, the country was facing "acute economic crisis, protracted poverty, inflation and unemployment" (Moon and Kim, 1996, p.192). The new regime inherited a triple non-alliance of the state bureaucrats, domestic capital and foreign capital. The triad was interacting in a loose association and, as such, the state was relieved of any strong influence on its policies. This contrasts with the case of Brazil, in which the state - as revealed earlier - confronted strong dependency agents. Furthermore, a review of the historical evolution of Korean social structure has indicated an absence of any deeply entrenched class to challenge the state's authority.

Accordingly, for a state to embark on its transformatory project, it needs to reinforce the existing non-alliance form of economic growth agents. This mission requires measures to strengthen the executive power of the new rulers. The state under the new rulers also needs to attain a careful balance of its bureaucrats with other dependency players and other social classes. The state further needs to prevail over other social classes to prevent any opposition that might hinder its efforts to implement its economic policies. As well as dealing with the internal situation, the new ruler of the developmental state had to deal with an external challenge. As has been mentioned earlier, in the post-civil-war era, the United States manipulated its economic assistance to impose a specific economic orientation. The economic strategy of import substitution adopted was based on a stabilisation priority. Accordingly, the economic



growth objective was of secondary importance. This policy was rejected by the new rulers. It constituted a source of acute friction between the two sides. The disagreement escalated to its "harshesht" level during the year 1963-1964. The new state was pressed by the Americans, utilising aid as leverage for significant economic changes as well as political reform and a return to the electoral process. The new military junta, with limited options, was forced to accept the demand for economic changes. It also conducted a presidential election in October 1963.

However, it realised that, as long as U.S.A. economic assistance maintained a dominant role in the economic life of the country, the prospect of achieving its economic agenda was slim. As a result, it embarked on "realignment" steps. Three steps may be identified in this regard. First, Korea concluded an agreement with Japan, establishing diplomatic relations in 1965. The opening through the Japanese secured a flow of financial resources over a decade. The measure relieved the dire need for economic assistance. Along with the possibility of Japanese investment, the move lessened the pressure from the United States and gave Korea room for bargaining. The second step sought by the Koreans was the conclusion of a "standby agreement" with the International Monetary Fund. The IMF arrangement constituted another potential source of needed finance. In a third step, the Republic of Korea approached the World Bank to explore the possibility of attracting other donor countries to help Korea in any time of need. All these steps were undertaken to avoid the country from being forced into "such a compromising position again" (Mason, 1980, p.197).

We will turn now to the new rulers' measures at the internal level. Immediately after seizing power, the military junta adopted in May 1961 the Extraordinary Measures for

National Reconstruction Law. The law stripped all existing political and social associations of their rights. The measures started with the army, to eliminate any potential threat to their control. Under these measures, 2,000 military men, 55 of whom were military generals, were discharged from military service. On the political front, in 1962 the new rulers enacted the Political Purification Law. The law prohibited more than 4,300 politicians from exercising their political rights (Haggard, 1990, p.62). The executive power of the new state was also strengthened by a new constitution that was adopted through a national referendum conducted in December 1962.

After three years of "harsh military rule" the new military junta was forced to restore civilian rule and, after an election in October 1963, a "nominal" civilian government, headed by Major General Park Chung Hee, assumed power in early 1964. Because of severe repressive measures, the new regime faced no challenging opposition during the 1960s. Coupled with successful economic performance, this absence of fierce competition encouraged the regime to adopt consecutive measures that produced a "bureaucratic authoritarian" type of state (Yushin). The constitution was amended in 1969 to allow the president a third presidency term. The move reflected negatively on the popularity of the president. This was manifested in a near defeat in April 1971 in a presidential election that brought another serious signal to President Park. However, unlike the Brazilian ruler who surrendered to the will of the opposition as manifested by the electoral process, the Korean strong man fought back and, as a response, Park undertook a drastic move. As just mentioned, in 1972 he moved against the national assembly and enacted a new Yushin constitution. The Yushin state provided an unconstrained executive role. The presidential tenure of office became six years, instead of four. The constitution was free from any limitation on the term of office.

Furthermore, the president, according to the Yushin constitution, is indirectly elected by "an electoral college". One third of the college was appointed by the president. The president now retained the authority to dissolve the national assembly as he deemed necessary for public security. Furthermore, the Yushin regime gave the president supreme control over the National Assembly through his right to appoint one-third of parliamentarians. Having secured domination over the political process, the strong ruler adopted parallel repressive steps against the opposition and other social sectors. They were oppressed and excluded from political participation through various anti-communist laws, the law concerning collective demonstration and various other forms of presidential emergency decrees. The Yushin authoritarian state manipulated a strong repressive apparatus to enforce these laws. At the top of these organisations were the Korean Central Intelligence Agency (the KCIA), and the National Defence Security Command, along with the police. Through all these repressive measures, "Park prevailed over political and civil society" (Moon and Kim, 1996, p.144).

### **The TNA and “embedded autonomy”: (empowering the bureaucrats)**

The other objective in reinforcing the state's role to intervene in the economy was to secure a balanced involvement of its bureaucrats in society, especially in their interaction with the domestic capitalist class and foreign capital. The current section emphasises the state's measures for achieving an embedded autonomy of the bureaucrats in their interaction with the existing classes. The first measures in achieving semi-autonomy of state bureaucrats were the so-called "purification" moves. As mentioned, the Political Purification Law of 1962 prohibited more than 4,300 political figures from exercising their rights. Furthermore, civil servant bureaucrats were targeted as well. More than 35,600 government employees were

discharged from the civil service. They were charged with various misdemeanours. The state filled some important government positions with loyalist ex-military personnel. In 1963, ex-military officers acquired 40 out of 95 top posts in the state. And, in order to penetrate the legislative body, the military rulers worked to acquire 36 out of 174 National Assembly seats. Furthermore, by 1968, retired army personnel had been appointed to 32 ambassadorial posts out of a total of 59 ambassadors. Military men were assigned a good share of ministerial posts. During the Park era, out of 16 transportation ministers, the ex-military share was 11. Nine of them held the Ministry of Home Affairs, out of 13 ministers. The Ministry of Construction was occupied by six ex-army men, out of 15 ministers.

The purging and cleansing of old bureaucrats continued aggressively after the proclamation of the Yushin authoritarian state. In 1974, a total of 331 bureaucrats were discharged from government service. A total of 52 persons with higher level posts (above section head) were affected. And, in 1976, a total of 15,000 civil servants were punished for alleged corruption cases. Furthermore, in April 1977, 420 government civil servants were dismissed. These waves of dismissals and purging served three purposes. First, they strengthened the military rulers' control of state institutions. Second, they sent a strong message to the bureaucrats that the new regime would not tolerate cases of corruption, and finally, the state secured loyalist state bureaucrats of its own creation. The next move on the part of the state was to equip its bureaucrats with the means to carry out its policies. On the top of these organisations was the creation of the Economic Planning Board (EPB). The board has been described as enjoying supreme independence and dominance over every state institution. This octopus-type super agency superseded all related economic institutions. It consisted of the budgetary office, detached from the Ministry of

Finance. The statistical and research department was transferred from the Ministry of Home Affairs. It also assumed responsibility for planning and coordination functions from the Ministry of Reconstruction. The functions of the EPB included the following:

- Preparing guidelines for ministries' annual budgets and evaluating their feasibility.
- Assigning certain projects for various ministries to undertake and retaining the authority to alter them.
- Exercising authority over foreign loans. The EPB was authorised to provide government guarantees to lenders and supervise the performance of borrowers.
- Deciding on incentives to foreign investors.
- Deciding on imported capital goods and their importers. Thus, the EPB gained complete control over capital inflows.
- Controlling the money supply. Indeed, the Minister of Finance was subordinated to the EPB, whereas the Central Bank was controlled by the Ministry of Finance. Hence, the EPB controlled the financial incentives at the core of industrial policy.

The power and authority of the EPB and its bureaucrats was augmented by elevation of its head to deputy prime minister level.

The authority of the new state's bureaucrats was also enhanced by the creation of another set of tools. Meetings at the level of ministers and others at the level of vice-ministers were established. At the ministry level ad hoc committees were also

established to elaborate on specific issues. These committees were opened up to private individuals, a sign of bureaucrats' engagement with the private sector.

The other level of bureaucratic consolidation could be found in the strong relationship forged between the bureaucratic institution and the executive branch of the state. At the top of this association was the president, who was said to be firmly in control. The president maintained close supervision of economic performance, as well as of the performance of bureaucrats. Several mechanisms were devised and put in place for this purpose. First were the weekly briefings on economic performance. Then, in 1964, a second procedure was followed by setting an economic situation room, through which President Park supervised the performance of certain projects on a daily and even hourly basis. The third set of tools in the president's monitoring scheme was the appointment of four presidential assistants in the Blue House. They allowed Park to maintain close contact with, and control over, the bureaucracy. The above three mechanisms served dual purposes. First, they allowed the president to check on the performance of his bureaucrats, and, at the same time, enhanced the authority of the bureaucrats in the eyes of the private sector, allowing them to carry out the state's policies efficiently and reducing the possibility of their being polluted by corruption.

Another tool of follow-up and monitoring was the establishment of planning and control offices. The offices were under the control of the prime minister's office. The monitoring mechanism included an external Economic Performance Evaluation Group. Finally, the efficiency of the semi-autonomous bureaucrats was enhanced by adopting a "meritocratic system" of civil recruitment. The new developmental state conducted various reforms to civil service recruitment. The essence of these reforms

was to encourage the incumbent bureaucrats to serve the common interest as well as their own interests. (Cheng, et al., 1993, pp. 101-105). Through implementing all these measures the state was successful in manipulating the TNA to establish a strong, efficient and competent bureaucracy. While these bureaucrats were greatly attached to the state, they were also energetically engaging with the private sector.

The state, through these measures, was successfully able to combine the proposition of bureaucrats' insulation advocated by Weber with the institutionalists' proposition of their involvement. Thus, under the Korean developmental state, the bureaucrats were in the form of an "embedded autonomy".

#### **Private entrepreneurs (Domestic capital): (discipline and consolidation)**

An essential part of the state's efforts to reinforce the triple non-alliance and secure the preservation of the "embedded autonomy" of its bureaucrats was to deal with the domestic capitalist class. Private entrepreneurs were considered to be the prime locomotive for the economic growth drive. As explained by the current research's model, the penetration of the state's bureaucrats by an alliance of domestic capital and foreign capital was held responsible for detracting from the economic growth process, as demonstrated by the Brazilian case. Therefore, the state's policy towards the capitalist class is seemingly a contrasting one. On the one hand, the state needs to support the growth of private entrepreneurs, to be able to initiate and sustain the growth process. At the same time, the state needs to check on the growing size and strength of the private sector to maintain the TNA form of interaction and, consequently, to prevent state bureaucrats from being "captured" by an alliance of local capital and foreign capital, that is, to achieve the bureaucrats' "embedded autonomy".

The current section examines state policy in dealing with domestic entrepreneurs. The previous two sections demonstrated that the state reinforced the TNA through, first, the consolidation of its dominance over social classes and, second, attaining an embedded autonomy of bureaucrats. The current section examines state efforts to consolidate the TNA further through containing private entrepreneurs, thus reducing the possibility of penetrating the state's bureaucrats (corruption). The first feature in the current discussion is the state's move to subordinate and demoralise the private sector. Only two weeks after seizing power, the military junta started to enforce the special law for dealing with illicit wealth accumulation. The measure involved arresting 13 major chaebol entrepreneurs - later adding 120 more. As mentioned, this measure was intended to bring the local entrepreneurs to "a kneeling position" vis-à-vis the state (Amsden, 1989, p.72). However, as the government considered them a vehicle to carry out its economic growth project, a compromise deal was concluded between the state and the business community, according to which the government would drop criminal accusations against them. Second, their wealth would not be appropriated, except for their shares in the commercial banks. For their part, entrepreneurs would repay their obligations through donating to the state shares in the newly established industrial firms (Mason, 1980, p.262). According to Chang, businessmen "became morally like criminals on parole on condition that they served the nation through enterprise" (Chang, 1993, p.152). Immediately after their release, the business community, through the Korean Business Association, presented to the military a list of 14 industrial firms in the sectors of cement, steel, fertiliser, cable etc (Cheng, et al., 1993, p.104).

Having subordinated the domestic capitalists, the state moved next to control the blood-line of the economic activities - the finance. It controlled domestic finance only



five months after assuming power through the nationalisation of banks, whereas the inflow of foreign credits was controlled through amending the Foreign Capital Inducement Law in 1962. According to the amended law, the state guaranteed foreign loans to local firms. The law also included clauses to avert risks associated with default and exchange rate fluctuations (Amsden, 1989, p.79). The state's dominance over firms' finances was augmented by further measures. The state established new banks, such as the Korea Exchange Bank, a bank for medium and small firms, and the Export-Import Bank (EXIM). Now the state was in full control over the flow of investment finance. Another measure that enhanced state domination of the financial system was its firm grip over foreign exchange. All the above mentioned measures rendered the local capitalist as "a paper tiger with little power to make investment decisions" Chang, 1993, p.152). (Undertaking the measures just mentioned successfully set the stage for the state to intervene in the economy, as entrepreneur (investor)). This role enhanced the state's ability to direct economic activities through influencing the private sector decision-making process. First, according to Amsden, "the defining characteristic of entrepreneurship is planning, or deciding what, when and how much to produce" (Amsden, 1989, p.79). The entrepreneurship role entails searching for new manufactured items and the method of producing them. It also includes penetrating new markets. The entrepreneurial rule also includes conducting a feasibility study for the new products, arranging finance and involvement in industrial designing and choosing the appropriate technology, as well as supervising their establishment. The role carries governments down to hiring and training of workers. The entrepreneurial function also envisages market contacts. The state successfully performed the entrepreneurial function. This is a clear demonstration of the success of steps described earlier. Six areas pointed to the success of the state entrepreneurial

role. First, the state was behind the early import-substitution plan in the fields of cement, fertilizers, oil refining and synthetic fibres. Second, it preserved the loss-making plants left by the Japanese. The continued operation of those factories supplied the skilled manpower to the newly established industries in the same fields. Third, the state adopted a move from light to heavy industrialisation. Fourth, the developmental state was behind the giant shipyard project and the great leap of the 1970s into heavy and chemicals industries. Fifth, the state pushed the move into the second import-substitution drive that strengthened the assembly stage of electronics and automobile projects. Finally, the state was behind the promotion of the oil-refining sector (Amsden, 1989, pp.79-81).

The state as an investor was both a product of state strength and, at the same time, reinforced state dominance. According to Chang, "the fact that such crucial intermediate inputs like oil, coal, gas, electricity, steel and fertilizers (used as means to control farmers) are supplied by public enterprises is another important factor contributing to the power of the state" (Chang, 1993, p.153).

Public enterprise is defined "as a productive entity which is owned or controlled, via ownership by a public authority and which produces a marketable product" (Mason, 1980, p.272). An enterprise is considered public if the state holds more than 10 per cent of its equity. The first feature of the public enterprises is that they represented a significant subsidy to the economy. Table 18 indicates that the government's investment in and operation of public sector enterprises exceeded its savings. The table indicates that, as compared to the private sector, in terms of deficit /GNP ratio, the public sector's contribution to the economy exceeded that of the private sector in the 10 years from 1972 to 1982 (Amsden, 1989, p.90).

**Table (18): Sources of Current Account Imbalances in Current Market Prices, 1963-1982 (Unit: Billion Won)**

Year	Public Sector					
	Private Sector (A) <sup>a</sup>	Government (B) <sup>a</sup>	Government			
			Invested Corporations (C) <sup>a</sup>	Subtotal (D=B+C)	A/GNP (%)	D/GNP (%)
1963-1971						
1963	-11.67	14.34	-16.06	-2.02	-2.4	-0.4
1964	-3.39	23.26	-13.79	9.47	-0.5	1.3
1965	-27.88	36.49	-16.15	20.34	-3.5	2.5
1966	-65.20	38.82	-15.14	23.68	-6.3	2.3
1967	-70.89	51.26	-54.39	-3.13	-5.5	-0.2
1968	-136.63	57.03	-36.19	20.84	-8.3	1.3
1969	-110.80	29.98	-63.73	-33.75	-5.1	-1.6
1970	-195.55	60.91	-63.12	-2.21	-7.3	-0.1
1971	-179.19	42.81	-130.31	-87.50	-5.4	-2.7
1972-1978						
1972	35.80	-9.16	-200.51	-209.67	0.9	-5.2
1973	51.31	24.86	-107.94	-83.08	1.0	-1.6
1974	-422.54	-36.09	-223.50	-259.59	-5.8	-3.5
1975	-337.19	-129.29	-482.24	-611.53	-3.4	-6.2
1976	-20.73	329.49	-455.95	-126.46	-0.2	-1.0
1977	472.45	18.08	-749.27	-731.19	2.8	-4.3
1978	-281.57	448.27	-1,031.84	-583.57	-1.2	-2.5
1979-1982						

1979	- 1,675.45	493.31	-1,170.45	-677.14	-5.8	-2.3
1980	- 2,381.04	20.81	-1,344.91	-1,324.10	-6.9	-3.9
1981	- 1,513.67	5.89	-1,869.06	-1,863.17	-3.6	-4.4
1982	489.47	-124.05	-2,260.19	-2,384.24	1.0	-5.0

\* A, B, And C refer to balance after investment from savings is subtracted in each sector.

Source: Bank of Korea, *Economic Statistics Yearbook*, various years, as cited by Y. C. Park, 1985. Cited in Amsden, 1989, p.91.

Figures for savings and investment of government-invested corporations, which include nonfinancial operations of Federations of Agricultural and Fisheries Cooperatives, obtained from Bank of Korea's flow of funds tables.

Furthermore, according to Table 19, the public sector absorbed more than one third of foreign borrowing from 1967 to 1979.

**Table (19): Foreign Loans and Investment, 1959-1983 (Unit: Million U.S. Dollars)**

Period	Loans (1) <sup>a</sup>		Direct	
	Public	Commercial	foreign	Total
			Investment (II) <sup>a</sup>	III=I+II
1959-1961	4.4	-	-	4.4
1962-1966	115.6 (37.5)	175.6 (57.0)	16.7 (5.4)	307.9
1967-1971	810.8 (35.8)	1,354.7 (59.9)	96.4 (4.3)	2,261.8
1972-1976	2,529.5 (33.1)	4,793.7 (62.6)	328.8 (4.3)	7,652.0

	6,246.5	4,434.1	404.1	
<b>1980-1983</b>				11,084.7
	(56.4)	(40.0)	(3.6)	

<sup>a</sup>Actual basis. Figures in parentheses are per cent of total. Source: Economic Planning Board, *Handbook of Korean Economy*, 1983, as quoted in Y. C. Park (1985). Cited in Amsden, 1989, p.92.

Beside their (public enterprises) operations in important sectors, indicated above, their large numbers also give support to the assumption of their significant contributions. It is indicated that by the end of 1972 - for example - their number had more than tripled from 100 at the beginning of the same year. Furthermore, in the early 1970s, public enterprises more than doubled in capital intensive products, as compared to private firms (Mason, 1980, pp. 273-75). This demonstrates the important complementary role of public enterprises in making up for the inability of the private sector to invest in capital intensive products.

To sum up: through public enterprises, the state achieved two objectives. First, it reinforced state effort to maintain the TNA mechanism. Second, it subsidised and influenced the activities of the private sector.

The previous discussion has confirmed three conclusions. First, the developmental state secured its autonomous, powerful position vis-à-vis other classes. It did so through the domination of political as well as security institutions. The second important conclusion was the state's establishment of competent, efficient state bureaucrats. The state was in a position to reconcile the needs of bureaucrats' involvement with the private sector with the importance of their insulation, that is, the state promoted the existence of an "embedded autonomy" of its bureaucrats. The third result was the success of state efforts to subordinate domestic capitalists and influence their economic decisions. This was undertaken, first, through its political move to demoralise the private sector and, second, through the control of cash flow, both

domestic and foreign, to the private sector. The third measure was to assume the role of an investor (entrepreneurs). The overall effect of these measures was to reinforce the TNA mechanism of interaction.

The next feature of the current discussion will elaborate on the state's measures to manipulate the result just mentioned, that is, the state's strength, the "embedded autonomy" and the weak capitalist class to influence the activities of the private sector. The state's engagement with domestic capital was enforced via three sets of policies: incentives, discipline and interaction.

State measures in encouraging the private sector and enhancing its activities are clearly demonstrated in the industrial policy. The state enacted various promotional laws, specified in Table (20).

**Table (20): Major Content of Promotional Laws**

Major content (year of enactment )	Machinery (1967)	Shipbuilding (1967)	Electronics (1969)	Petro- chemicals (1970)	Iron & Steel (1970)	Non- ferrous metals (1971)	Textiles (1979)
Regulations							
Entry restriction	X	X	X	X	X	X	X
Capacity regulations:							
Setting up facility standard	X	X					
Capacity expansion approval				X	X		X
Incentives to use domestically	X		X				
Produced facilities							
Production regulation							
Regulation of material imports					X	X	
Production standard and its inspection	X	X	X		X	X	
Restrictions on technology imports	X	X					
Price control				X	X		
Reporting and inspection	X	X	X	X	X	X	X
Rationalisation	X	X	X	X			X
Rationalisation programmes	X	X	X	X			X
R & D support							

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Subsidies to R & D	X		X	X	X	
Joint R & D projects			X			
Financial support						
Special purpose fund	X	X	X		X	X
Financial assistance	X	X	X		X	X
Subsidies						
Direct subsidy	X				X	
Reduced public utility rates	X				X	
Tax preferences						
Special depreciation	X				X	
Tax reduction exemption	X	X	X	X	X	X
Special industrial complex	X		X	X		X
Administrative assistance						
Facilitating overseas activities			X		X	
Purchase of raw materials					X	X
Producers' association	X	X	X			X

Source: Kim (1989), p.34, table 3.1; S.H. Lee et al. (1989), pp.52-9.

According to this policy, prime industrial sectors (priority sectors) were specified and provided with an extensive range of supports. As indicated in the table, these supports include "subsidised" interest rates, preferential taxes, and restrictions on import and entry limitations. The most important and efficient tool in the industrial policy was "policy loans", according to which the designated industrial sectors received favourable interest rates. These types of loans reached 57.9% of total loans given by the banking system between 1962 and 1985 (Chang, 1993, p.141). The basic feature of subsidised credit was that it was allocated on discretionary principles, allowing bureaucrats more liberty in their interaction with private sectors (Amsden, 1989, pp.73-74).

Two bases were adopted in allocating subsidised interest rates. First, working capital credit requirements were available to every exporting firm; second, long-term credit requirements were made available to certain firms in certain industries. As for foreign credit, its cost was far below domestic borrowing. Table (21) indicates that the real cost of borrowing foreign funds was actually negative. The state adopted three mechanisms for credit distribution. First, since 1974 public loans (government) had fallen under the Public Loan Inducement and Management Law. The second type was the private long-term (more than 3 years). They were covered by the Foreign Capital Inducement Law. This required guarantees from the government, the Korea Exchange Bank and the commercial banks. The third form was private short-term loans, which are governed by the foreign exchange management laws (Mason, 1980, p.268).

**Table (21): Cost of Foreign Capital, 1966-1983 (Annual Averages)**

	1966-1970	1971-1975	1976-1980	Unit: % 1981-1983
Domestic bank lending rate <sup>a</sup>	24.4	17.0	18.0	12.5
(curb market interest rate)	(54.2)	(40.1)	(41.3)	(30.6)
Foreign interest rate <sup>b</sup>	6.4	7.9	11.5	11.1
Foreign inflation rate (GNP deflator) c	4.9	8.4	5.9	4.1
<b>GDP deflator (rate of change):</b>				
Korea <sup>c</sup>	14.6	18.7	19.7	9.9
Real foreign interest rate (II-III)	1.5	-0.5	5.6	7.0
Interest rate differential between	12.9	1.3	1.0	-8.7



home and foreign markets				
(I-II-IV)				
Real private cost of borrowing	-3.1	-3.0	-2.7	11.3
abroad (II+IV-V)				

GNP, gross national product

<sup>a</sup> discounts on bills on deposit money banks (three-year moving averages).

<sup>b</sup>LIBOR (90 days). London Inter-Bank Offered Rate

<sup>c</sup>Average of Japan and United States.

<sup>d</sup>Bank of Korea standard concentration rate (three-year moving averages).

<sup>e</sup>Three-year moving averages.

Source: Bank of Korea, *Monthly Bulletin*, various issues, as cited by Y.C. Park (1985). Cited in Amsden, 1989, p.76.

The cases of designated industries that enjoyed favoured "policy loans" included the cement industry. Within this sector, the Sangyoung group was favoured. In the steel, industry the Pohang Iron and Steel Company (Posco) enjoyed preferential credit treatment, as compared to other firms in the industry. In the field of shipbuilding, Hyundai dominated the market, a case that led to the financial difficulties and bankruptcy of other smaller firms. Similarly, in the machinery building fields, the industrial policy favoured three giant firms - Hyundai, Samsung and Daewoo - over other corporations in the sector (Amsden, 1989, p.73).

The success of industrial policy is directly associated with the state's control over the banking system and the flow of foreign loans and this was made easier for the state because it secured domination over other social classes (TNA).

Export promotion measures were the second form of state incentives to the private sector. Export policies were strongly interrelated as an integral part of the industrial policy. Table (22) specifies export incentives for the years from 1950 to 1975 (no

major new policies were adopted after 1967) (Krueger, 1979, p.99). The table lists 20 forms of export promotions. The export enhancement measures are summarised in six categories. First, exporters enjoyed favoured credit allocation. They also benefited from tax exempted inputs (indirect) for their export products. Exported commodities also enjoyed indirect tax exemption. Furthermore, exporters were given 50 per cent tax decreases on income and export earnings. Tariff exemption was also applied to export equipment manufacturing as well as imported raw materials. The exporters were promoted by "wastage allowances", on raw materials imported for the production of export commodities. And, finally, the state supported export marketing efforts (Kim and Roemer, 1979, p.46). Starting from 1975, exporters were significantly augmented by the creation of General Trading Company (GTC) type of firms. The GTC not only encouraged export but also "had a tremendous impact on the Korean industrial structure". Through this form of firm, the state "licensed" a small number of big size GTCs to certain chaebol. The GTCs represented "export windows". They were provided with a wide range of incentives to operate. Beside the previously described promotion steps, the GTC exporters were permitted to borrow - at a favoured interest rate - an amount equal to 90% of valid export order (Koo and Kim, 1992, pp.134-135).

**Table (22): Types of Export Incentives and Dates of Operation, 1950-1975**

<b>Types of Export Promotion Scheme</b>	<b>Dates Applicable</b>
Tariff exemptions on imports of raw materials and spare parts <sup>a</sup>	1959-1975
Tariff and tax exemptions granted to domestic suppliers of exporting firms	1965-1975
Domestic indirect and direct tax exemptions <sup>b</sup>	1961-1972
Accelerated depreciation	1966-1975
Wastage allowance subsidies	1965-1975

Import entitlement linked to exports	1951-1955
	1963-1965
Registration as an importer conditional on export performance <sup>c</sup>	1957-1975
Reduce rate on public utilities	1967-1975
Dollar-denominated deposits held in Bank of Korea by private traders	1950-1961
Monopoly rights granted in new export markets <sup>d</sup>	1967-1971
Korean Trade promotion Corporation	1964-1975
Direct export subsidies	1955-1956
	1961-1964
Export targets by industry	1962-1975
<b>Credit subsidies</b>	
Export credits	1950-1975
Foreign exchange loans	1950-1954
	1971-1975
Production loans for exporters	1959-1975
Bank of Korea discount of export bills	1950-1975
Import credits for exporters	1964-1975
Capital loans by medium industry bank	1964-1975
Offshore procurement loans	1964-1975
Credits for overseas marketing activities	1965-1975

Source: Frank, Kim, and Westphal, p.40, covering the period of 1972. Data were updated to 1975 on the basis of information supplied by Korea Development Institute. Cited in Krueger, 1979, p.93.

Note: <sup>a</sup>Tariff exemptions were shifted to a rebate system in **July, 1974**.

Next, the state intervened with private entrepreneurs through disciplinary measures. Through this policy, the state put in place measures to ensure that private enterprises

activities served the overall economic objectives and did not abuse the provisions of support. Other than the operating laws discussed and regulation of both industrial policy and export promotion, the state also exercised a price control policy. It undertook this policy through three measures. First, it controlled prices indirectly through public enterprises that provided basic services for both private consumers and producers (transportation, oil, electricity and fertilisers). Second, prices were controlled via direct contact with the main producers, either in agriculture or in the manufacturing sectors. Third, the state sought to influence prices through manipulating its power to relax importation. Usually in the case of the Korean state, "ceiling prices" were set amicably through an informal agreement with producers' organisations. The state enforced price control measures by price stability law, monopoly regulation and fair trade law. The state resorted to the application of this law if violators did not respond to "various disincentives, implicit threats and credit restraint tax investigation, stricter regulation of sanitary standards and so on" (Mason, 1980, p.38).

The second form of control was exercised by the state on imports. Import controls are divided into two types. The first is quantitative control. According to this "visible" system of restrictions, the Ministry of Commerce and Industry (MCI) issued licensing procedures and a list of products eligible for imports under the Automatic Approval (AA) mechanism. The second type of trade control is the "less visible" measure. The state resorted to this form of control in an attempt to protect domestic industries further. This type of restriction affected the AA list through four measures. First, this was achieved through special laws that were directed at products included in the AA list. Second, imports were restricted by so-called "import area diversification". These measures were directed at Japanese imports. According to this procedure, importers

needed to secure the approval of the Korea Trading Agents Association. The third mechanism of import control was "surveillance measures". These stipulations allowed the state to "take necessary action if the inflow of foreign goods is found to be causing serious problems to home-based suppliers" (Richard, 1988, p.79). And the final step through which the AA list was affected was so-called "end users' imports". The measure required the approval of users' associations to allow the importation of the related products. Furthermore, there were other restrictions, such as "inspection requirements", "advance deposits" and "custom and excise duties". All such measures made items on the AA list subject to restrictions (Richard, 1988, pp.76-79).

The third form of state control over investors was related to capital outflow and external remittance of liquid capital. The motive behind this control was to prevent private entrepreneurs from using state incentives to accumulate wealth overseas. The stipulation carried the maximum of the death penalty.

We have so far elaborated on two features of the state's intervention with local capitalists. According to the first, the state promoted the private sector via various incentives. The state, secondly, applied certain controls on the activities of private sector that worked for overall economic performance.

In exchange for these supportive policies, the state required private corporations to adhere to specific "performance standards", and, in the case of Korea, performance was not measured through financial achievements. The focus was, rather, on production quality and management efficiency. The most important and relevant were the "export targets" (Amsden, 1989, pp. 8, 16, 17).

The grip of state control over overall economic performance was enhanced through adopting internal channels, such the monthly "monitoring" procedures. Through these

procedures, the subsidised firms were punished if they failed to submit a monthly report on their export achievement as well as achievement in other areas (Chang, 1993, p.142). Both "deliberation councils" and "discussing groups" constituted mechanisms through which the state conveyed its desires to the private sector (Chung, 1992, p.189).

The state adopted various enforcement procedures that made "life extremely difficult" for uncooperative firms (Richard, 1988, p.100). Two most important tools at the state's disposal were taxes and control over credit (domestic/foreign). The application of these disciplinary actions evolved gradually. Before resorting to direct measures, state bureaucrats started by subjecting the targeted firms to actions such as tax reviews and auditing the overall balance sheet. The state also resorted to harassing some firms by ignoring their requests for credit facilities or not renewing their existing loans. The most dreadful procedure was, however, the application of the "Law for Punishment of Tax Criminals". Clauses in this law include "criminal prosecution", which was considered a very "serious matter in Korea" (Mason, 1980, pp. 265, 270). In July 1976, the law was enforced against 27 private firms. Amsden (1989) presented at least six cases in which the state exercised its power in "penalising poor performers". In one case, Shinjin, which was one of the largest enterprises in the car industry in the 1960s, was taken over by Daewoo Motor. The state also "abandoned" another car manufacturer –Asia. The third case of targeting private enterprises was manifested in the cement sector. The state ordered asset transference of the largest producer to the SsangYong group. In the electronic industry, the ailing division of the Taihan group was merged with the Daewoo Electronic branch. Furthermore, the measures included merging the poorly-performing Kyungnam with Daewoo; also, Samho was taken over by Daelim

Engineering firm. The last case (not least) was the abandoning of the KukJe-ICC group (Amsden, 1989, p.148).

The state's ability to restrain private sector enterprises was demonstrated in its performing its entrepreneurship role. Two periods may be distinguished in this regard. The first was in response to firms' difficulties associated with the late 1960s boom. The developmental state put in place a "taskforce" that reported directly to the president. The committee, between 1969 and 1972, imposed merger measures and forced the sale of dozens of firms in distress. The second round of heavy state involvement was in response to excess capacities which resulted from the late 1970s investment boom. The target was to reorganise heavy and chemical industries. In one case, the Korea Heavy Industries and Construction Co. (KHK) was founded (and later nationalized) as a result of merging four powers - generating equipment industries. In the second case, the state intervened in reorganising and planning the automobile industry. The Kia car producer was asked to specialise in trucks and buses. In 1968, Shinjin (later abandoned) was strengthened by the transferred asset of the Senara car maker. In the same year, Hyundai and Asia were allowed an entry to the automobile industry. Again, in 1974, the state initiated a plan to develop domestic automobile models. State planned intervention was extended to the naval diesel engine industry. Daewoo was instructed to leave the industry. The state divided the market between the two remaining companies. Hyundai was to specialise in engines with a capacity of over 6,000 horse power (h.p.), whereas Ssangyong was to produce engines under 6,000 horse power. The third case of the state's ability to force its way into the local economy was in the field of the Heavy Electrical Machinery Industry. A major restructuring took place, according to which three out of eight existing producers -

Hyosung, Ssangyong, Kolon - were merged into Hyosung. The latter was asked to specialise in highly sophisticated products.

The efficiency and strength of state intervention was - according to Chang - demonstrated in the fact that "in the conduct of such reorganization programmes even the economically and politically powerful conglomerates, chaebols, as individual conglomerates, were not immune to state discipline, although as a group, they were certainly privileged in their access to various rents" (Chang, 1993, p.149).

In a clear manifestation of the "embedded autonomy" nature of the state's bureaucrats, "only two of the ten biggest chaebol in 1966 were among the top ten in 1974; only five out of the 1974 top ten were in the 1980 top ten; only six of the 1980 top ten were in the 1985 top ten" (Chang, 1993, pp. 148-50).

Hence, the state's last aspect in its interaction with the private sector was the disciplinary feature. The review has explained that influencing private entrepreneurs' decisions was undertaken via two means, first, the state's control over credits, and, second, through taxing power. It was also revealed that state policies in this regard evolved from persuasion and manipulating threats to realisation of direct disciplinary measures, such as enforcing tax punishment law. The third feature of the disciplinary role of the state was its efficiency and reach-out. The review exhibited strong penetrative state action vis-à-vis the domestic chaebol.

### **Foreign capital: (Containment strategy)**

The discussion has so far covered the developmental state's relations with bureaucrats and with the domestic capitalist class. It has been revealed that the Korean rulers - after consolidating their position - worked aggressively to create their own loyal



bureaucratic class. The state adopted various measures that cleansed the government bodies of the old bureaucrats, replacing them with fresh personnel. State measures were also extended to arranging organisational settings that strengthened the role of its bureaucrats vis-à-vis other classes, and, at the same time, the developmental bureaucrats were enabled to interact actively with the private sector. All these measures culminated in the birth of an "embedded autonomy" form of bureaucrats. Similarly, the previous elaboration explained the state's attitude towards the entrepreneurial class. It showed that the developmental state undertook measures to subordinate the private sector. The main tool of the state's subordination of private enterprises was its control over credit, both domestic and foreign.

The current section deals with the state's engagement with foreign capital. Foreign capital is the third member in the dependency triad. A state's interaction with foreign capital is influenced by two realities. The first is the fact that foreign capital constitutes an essential part in the economic growth process. Foreign capital is the source of much-needed finances and technological capabilities. Hence, the developmental state's objective is to enable its domestic businesses to assimilate sophisticated technology. Foreign capital is also a vitally important source of investment finance. It is needed to fill "the persistent savings gap" for investment financing (Chang, 1993, pp. 140-141). The second reality in the association between the developmental state and foreign capital is the worry of its negative role on the final outcome of the dependent economic growth. As demonstrated earlier, the Brazilian economic growth process was derailed in a manner that served foreign capital at the expense of national objectives.

The current review seeks to elaborate on the way in which the developmental state in Korea worked to reconcile these seemingly contrasting objectives. It starts by emphasising the fact that the state's association with foreign capital was influenced by the absence of two forms of the latter (loans/direct investment) from the scene until the early 1960s. Multinationals "did not show interest in investing in Korea in the early 1960s. Korea was barely out of the ruins of the devastating Korean War, its GNP per capita was below \$200 and it had very few national resources" (Koo and Kim, 1992, p.127). It has been shown that the structural evolution of Korea produced no deep-rooted classes - including foreign capital. The only form of foreign capital which existed in Korea was foreign aid, and, in fact, this form - as revealed - indirectly contributed to enhancing the state's power in relation to foreign capital. Furthermore, the state's position vis-à-vis foreign capital was also enhanced by its success in subordinating the domestic capitalist class and also by its ability to secure the "embedded autonomy" of its bureaucrats. This situation allowed the state to engage with the foreign capital on its own terms and condition.

The first issue in the discussion is the state's encounter with foreign aid. As indicated in earlier chapters, foreign aid represented the main source of financing economic activities until the early 1960s. At the time, the state was adopting an economic policy that emphasised stabilisation over growth. However, three causes were behind the shift toward adopting a growth-oriented strategy. The first was the exhaustion of the import - substitution policy. The second was the strong belief of the new military rulers in growth as a way of pulling Korea out of backwardness. And the third was the desire of the new rulers to end the manipulation of aid as a pressure tool used by the Americans to influence their domestic choices. As revealed earlier, until the early 1960s foreign savings (mostly aid) financed 75 per cent of domestic investment.

However, it had declined significantly, to 10 per cent by 1976. The data indicates the state's success in eliminating almost entirely the dependence on aid as a source of investment financing. It increased other sources, such as domestic savings, which in 1974-1976 reached 19 per cent of GNP, up from 7 per cent in 1953 (Table (23)).

**Table (23): Trends in Domestic Savings Rates, 1953-1976**

**(In per cent of GNP, based on current price data)**

	1953-1955	1960-1962	1967-1969	1974-1976
Gross domestic savings rate	6.9	3.0	15.7	18.7
Gross domestic saving rate, net of change in grain inventories	4.1	3.6	15.7	15.9
Government	-2.5	-1.7	5.5	5.0
Business firms	5.0	6.7	7.9	10.1
Households <sup>a</sup>	1.7	-1.4	2.4	0.7

Source: BOK, National Income in Korea, 1975, pp.150-151, 180-181, 186-187; and *Final Estimate of Gross National Product for 1976*, (August 1977). Cited in Mason, et al., 1980, p.107.

Equipped with the "embedded autonomy" of its bureaucrats, subordinated domestic entrepreneurs and an absence of deep-rooted foreign investment, the state retained a free hand to deal with foreign capital. The state's success in dealing with foreign capital is measured in its ability to reconcile the two seemingly contrasting roles of foreign capital. This ability was demonstrated by various changes in the regulations governing the inflow of foreign capital. The state was able to alter the Foreign Capital

Inducement Law to deal with changing economic priorities and to accommodate the emerging needs. The state's ability to reconcile both roles of foreign capital was also exercised in the "informal" written measures adopted to enforce the changes in the foreign capital regulations. The discussion emphasises the state's attitude toward foreign capital in its three forms: foreign direct investment, loans and foreign technology.

In 1960, the state enacted the first measure to attract foreign investors (the Foreign Capital Inducement Law). After 1961 the law was subjected to various amendments, indicated in Table (19). All changes reflected the desire of the state to invite foreign capital and, at the same time, to direct its investments toward serving national growth objectives. Tracing these alterations reveals four stages in state attitude towards foreign capital. The first was associated with the early stages of the developmental state. At the time, the state's approach was simply to attract foreign capital without favouring any of its forms - aid, commercial loans or direct investment. The second approach was characterised by an emphasis on loans and direct investment, whereas the third stage featured emphasising loans less and indirect investments more. However, the state approach in the fourth stage was distinguished by emphasis again on loans over direct investment. As compared to Brazil, dependent development in Korea was based on indirect investment, rather than direct. This demonstrates a new dependency case. The first stage started late in 1961 with the alteration in the Foreign Capital Inducement Law. The objective of this amendment was enlarging the scope of investors to include individuals from "all friendly nations". The law permitted foreign firms to acquire up to 75 per cent of equity. Foreigners were also permitted to repatriate 10 per cent of the amount of their investments. At this stage, the law did not distinguish between loans and direct investment. No major incentives were provided.

Furthermore, in approval requirements, foreign corporations received treatment equal to that of domestic firms. And, finally, all fields were opened to domestic as well as foreign investors. The government reserved only a few sectors as its own, such as nuclear energy, military equipment, salt, tobacco and ginseng (Stoever, 1986, pp. 226, 230). The second phase in the state's approach toward foreign capital began with the major change in 1962 to the Foreign Capital Inducement Law. The change empowered the Economic Planning Board (EPB) to regulate the flow of foreign capital. Its major content was providing state guarantees to local firms borrowing foreign funds. This measure went hand in hand with other measures that were intended to induce foreign investment. Indeed, by adopting such a policy, the state retained a very powerful tool for influencing domestic firms. Furthermore, state guarantees of domestic enterprises created a buffer zone that prevented foreign capital from allying with the domestic private sector. Both points had far-reaching consequences on the state's association with foreign capital and, consequently, on its ability to carry out the economic growth strategy successfully.

At this stage, although Korean policymakers still saw equally beneficial roles for both forms of foreign capital (loans/direct), their approach was leaning toward loans. Loans were considered positively, as they permit unhindered domestic control over resource allocation. They also enhance the domestic business and managerial capabilities of the developing country. The third major modification of the law was conducted in 1966. The objective of this modification was mixed. It reflected the state's desire to encourage the flow of foreign capital further and, at the same time, it wanted to make sure that this flow served its economic strategies on direct investments; although foreigners were not allowed to obtain 100 per cent of new firms, the 20 per cent limit on remittance was removed. Foreign investors were also

encouraged by tax exemptions. According to these changes, individuals' income tax, corporate tax and property tax were applicable only after five years. Moreover, a 50 per cent discount on these taxes was given for three more years.

Most importantly, however, was the fact that the law specified the state's loan guarantee procedures. By this stage, negative aspects of loan guarantee policies had occurred. Some cases of abuse had emerged, according to which money fell into private hands after borrowing companies went bankrupt. The government then paid the debts. Policy makers at EPB thus concluded that Korean businesses were all family-based and, consequently, lacked the ability to utilise the borrowed fund. Another issue for disfavours loans - in the eyes of policy makers - was that these loans were connected with buying foreign equipment, which was always "overpriced". As a result, the emphasis shifted towards direct investments. Companies applying for foreign loans were subjected to scrutiny, to establish their credit standing as well as the purpose of the loans, whereas direct investment received encouraging measures. The state established the Office of Investment Promotion (OIP). Korea, also joined the International Centre for the Settlement of Investment Disputes (ICSID) - a World Bank subsidiary. In 1970, Korea, in an attempt to attract direct investment, concluded an "avoidance of double taxation" agreement. Furthermore, foreign investors enjoyed "duty free" on imported capital equipment and related raw materials. To create a more favourable environment, labour strikes in foreign firms were outlawed. A free-trade zone was also established as a demonstration of the state approach to inviting foreign investors. In spite of all these measures, foreign direct investment represented a small share of total foreign capital inflow (Tables (24) and (25)).

**Table (24): Inducement of Foreign Investment and Loans (Arrivals)****(US\$000)\***

<b>Year</b>	<b>Total</b>	<b>Loans</b>		<b>Direct Investment</b>	
	<b>Arrivals</b>	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
1962-1966	307,870	291,195	94.6	16,675	5.4
1967-1971	2,261,890	2,165,536	95.7	96,354	4.3
1972	799,177	737,945	92.3	61,232	7.7
1973	1,024,301	865,866	84.5	158,435	15.5
1974	1,150,889	988,260	85.9	162,629	14.1
1975	1,355,707	1,286,537	94.9	69,170	5.1
1976	1,658,749	1,553,175	93.6	105,574	6.4
1977	1,970,590	1,868,304	94.8	102,286	5.2
1978	2,847,972	2,747,515	96.5	100,457	3.5
1979	2,833,426	2,707,389	95.6	126,037	4.5
1980	2,800,033	2,703,856	96.6	96,177	3.4

\* Adapted from *Major Statistics of Korean Economy, 1980* (Seoul: Economic Planning board, 1980), p.195. Note that foreign investment arrivals are usually less than foreign investment **approvals, owing** to the time lag between arrivals and approvals and because some approved investments are not followed through. Cited in Stoeber, 1986, pp.226-237.

**Table (25) : Foreign Investment Approvals by Country or Region****(US\$000)**

<b>Year</b>	<b>United States</b>	<b>Japan</b>	<b>Western Europe</b>	<b>Other</b>	<b>Total</b>
1962	575	0	0	0	575
1963	304	0	0	0	304
1964	333	0	0	0	333
1965	19,272	693	333	373	20,671
1966	1,116	0	0	0	1,116
1967	2,986	980	1,184	4,137	9287
1968	677	4,829	0	2,855	8,361
1969	1,505	9,650	5,821	0	16976
1970	4,054	5,592	1,527	2,469	13,642
1971	3,923	19,699	627	1,544	25,793
1972	35,370	57,599	1,122	0	94091
1973	5,865	140,672	540	9,529	156,606
1974	17,637	50,064	1,853	4,449	74,003
1975	9,867	81,002	56,888	21,641	169,398
1976	12,637	47,601	8,335	3,931	72504
1977	15,504	26,687	12,521	11,200	65912
1978	34,037	75,142	15,239	4,020	128,438
1979	35,972	39,295	24,658	7,661	107586
1980	59,571	39,197	33,496	8,487	140,751
1981	87,018	34,617	13,617	10,107	145359
1982	108,198	42,617	9,816	27,160	187,791
1983	56,510	167,501	23,447	20,295	267,753
<b>Total</b>	<b>512,597</b>	<b>843,416</b>	<b>211,025</b>	<b>139,858</b>	<b>1,704,198</b>

- Adapted from "Status of Foreign Investment Authorization," table 2. Some amounts in the early years were interpolated from "Expansion of Foreign Direct Investment in Korea. 1962-1979," *Korea Annual*, p.189. Values did not always add up exactly in the original, although the order of magnitude was consistent. Cited in Stoeve, 1986, pp. 226-237.



The state's drive to attract foreign investment continued with a 1972 study on the criteria for foreign direct investment and joint ventures in Korea. The study sought to remove obstacles hampering the inflow of foreign capital (investment). The recommendations produced the establishment of a one-stop service office. A presidential decree required the office to complete the application process in no more than 8 days. Several trade promotion offices were also opened abroad. The state also made aggressive efforts to advertise Korean investment potential overseas. All these steps involved high-ranking state officials, starting with the president himself. The promotional measures proved to be successful in attracting a good size of capital inflow. As reflected in Table (25), foreign investment increased significantly in the early 1970s, both in number and in amount.

However, at this stage, the real contributions of foreign investment to the national economic strategies were doubtful. This brings in the other task of the state; that is, directing capital inflow toward serving domestic industrial capabilities. Korean policymakers were alarmed by the negative aspect of direct investment (mostly Japanese). They witnessed that Korea was being turned "into a nation of cottage industries" (Stoever, 1986, pp. 226-237). The Japanese brought in old technology and reaped large profits in exchange. The main beneficiary of these investments was the home market (Japan), which received "cheap goods". Because most of the foreign firms were wholly owned, domestic control was absent. Consequently, domestic managerial skill did not benefit. In order to avoid these consequences, the emphasis shifted back to capital inflow (loans). The policy makers (EPB) put in place new

measures to restrict and redirect the activities of foreign direct investments. Foreign capital investment administrative procedures involved equity ownership regulations. The regulations did not change the 100 per cent foreign acquisition; they indicated the preference for a 50-50 partnership with the locals. As a demonstration of its awareness of the negative side of foreign investment, the state further amended foreign capital law. According to these new changes, the state became selective in its approach to FDI. The emphasis in 1974 was towards advanced technology and heavy manufacturing in order to enhance the country's competitiveness in export. According to the regulations, investments were classified into two categories – "favourable" and "unfavourable". A favoured firm needs: (1) to be specialised in the manufacturing of "machinery, metallic products or electronic equipments"; (2) to require large-scale installation, which is difficult for domestic firms to operate in terms of capital, technological know-how and/or management; (3) to be export-oriented, with overseas markets that could not be effectively developed and served by local business alone; or (4) to contribute to the development of domestic resources; whereas unfavourable investments are the ones that: (1) mainly capitalise on cheap labour and/or land; (2) compete with domestic enterprises in overseas markets; (3) provide only capital support to existing enterprises; or (4) depend on Korea's own natural resources and other scarce domestic raw materials for industrial processing in such a way as to interfere with the domestic demand-supply balance.

The impact of these steps was dramatic. From 1973 to 1974, the value of approved firms fell by over 50 per cent; further falls occurred in the years 1976, 1977 and 1978. In 1979, FDI started to climb again. The number of projects fell from 194 in 1973 to 85 in 1974 and to only 29 in 1975 and it remained quite low into the 1980s Table (26).

**Table (26): Number and Amount of Foreign Investment Project Approvals Each Year**

Year	Total Number of Authorisations	
	Projects (N)	Amount (US\$000)
1962	1	575
1963	1	304
1964	2	333
1965	5	20,671
1966	6	1,116
1967	12	9,296
1968	20	8,361
1969	25	15,581
1970	50	13,642
1971	57	25,793
1972	107	93,072
1973	194	156,606
1974	85	74,003
1975	29	169,398
1976	35	72,160
1977	37	65,915
1978	41	128,438
1979	42	107,312
1980	36	140,751
1981	41	145,327
1982	55	187,791
1983	75	267,753
<b>Total</b>	<b>956</b>	<b>1,704,198</b>

Cited in Stoever, 1986, pp. 226-237.

A further modification in the regulations of foreign capital law was carried out in 1977. Industries were classified into two, "top level" and "second level"; the first level would continue to benefit from the full range of incentives available under existing rules. The second level, those producing consumer goods primarily for the domestic market, would not receive any special incentives. This was in response to new emerging realities (needs/objectives), such as, first, the desire to arrest inflation and improve the quality of consumer commodities. Second, it was done to diversify sources of capital inflow away from the United States and Japan. Third, it was done to avoid excessive dependence on the two countries, the United States and Japan (Stoever, 1986, pp. 226-237).

The state's attitude to discouraging FDI revealed its success in reconciling the latter roles in the economic growth process. The state's approach also demonstrated its preference for capital inflow (loans) over foreign direct investments. Richard (1988) described three informal measures adopted by the state to restrict and direct the activities of foreign investments. The first was the strict screening procedures, which were based on several informal procedures and guidelines. State bureaucrats utilised the power of an "embedded autonomy" to exercise significant administrative freedom in applying existing regulations. The extent of this freedom, for example, might reach a point at which they might reject an application even if it met the specified conditions. Second, the state exercised an aggressive interference in the work of foreign firms. This intervention extended to price setting, goods production, export quantities etc. The state might also interfere in altering joint venture agreements. The

third feature of state unwritten measures toward foreign investors took the form of "extensive reporting requirements and control". Foreign firms were subjected to continuous monitoring by Korean agencies seeking information and reports of their activities, and in many cases this information was leaked to domestic competitors (Richard, 1988, pp. 85-87).

The discussion so far has covered aid, loans, and foreign direct investment as forms of foreign capital. The state's attitude towards foreign technology was similar to that towards direct and indirect foreign capital. That is, the state sought to reconcile the need for this technology to advance its industrial capability with the need to prevent foreigners from influencing its economy and preventing any real development in technological capabilities. According to Amsden, obtaining foreign licences for technology transfer "have been viewed as a means to attain technological independence" (Amsden, 1989, p.20). Indeed, foreign technology licensing enhanced the state's "efforts in both public and private sphere to avoid foreign control" (Amsden, 1989, pp. 20-21). This impact is similar to that of loans, as the state strength "has been enhanced by the inflow of foreign capital in the form of public as well as commercial loans.... The Government distributed public loans to sectors it deemed important for its economic plans" (Koo and Kim, 1992, p.123).

The real dilemma for Korea with regard to its approach to foreign technology is reflected in the restrictions associated with imports of foreign technology licences. On the one hand, if Korea rejected foreign companies' "restrictive clauses" in imported technology, the required technology might be denied. At the same time, if such clauses were readily accepted, the value of this technology to the advancement of domestic capability might be jeopardised. To achieve this balanced objective, Korea's

regulations with regard to technological transference included four conditions. First, foreign technology was welcomed on the basis of its enhancement of export. Second, it had a positive role in consolidating "priority industries". Third, the need for foreign technology was welcomed on the basis of its effect on import substitution industry. And, finally, foreign technology is measured by its contribution to overall economic stability. Foreign technology was governed by the same institutions and regulations that regulated other forms of foreign investment (Richard, 1988, pp. 90-92).

The overall result of the Korean state attitude toward foreign technology was successful. Two points demonstrate this success. First, "industrialization occurred almost exclusively on the basis of nationally owned rather than foreign-owned enterprise". Second, the state "imported massive" foreign licences in order to avoid foreign control (Amsden, 1989, p. 21).

To summarise, the review of state interaction with foreign capital has revealed developmental state success in ensuring its unchallenged dominance over the inflow of foreign capital. The state exercised an almost free hand in choosing the form of foreign capital and in its ability to direct its activities to suit Korea's economic growth objectives. The major conclusion of the discussion is that Korea represented - at the time - a new dependency situation, in which indirect foreign capital (loans) was the dominant form (Table (27)).

**Table (27): Inflow of Foreign Capital, 1959-1989<sup>a</sup> (in \$1,000)**

Year	Total Foreign Capital	Loans			
		Total	Public	commercial	Direct Foreign Investment
1959-1961	4,386	4,386	4,386	0	0
	(100.0) <sup>b</sup>	(100.0)	(100.0)	(0.0)	(0.0)

1962-1965	138,276 (100.0)	118,775 (85.9)	52,836 (38.2)	65,939 (47.7)	19,501 (14.1)
1966-1970	1,757,232 (100.0)	1,692,772 (96.3)	549,396 (31.3)	1,143,376 (65.1)	64,460 (3.7)
1971-1975	4,998,780 (100.0)	4,510,598 (90.2)	2,027,250 (40.6)	2,483,348 (49.7)	488,182 (9.8)
1976-1980	12,280,637 (100.0)	11,748,708 (95.7)	4,774,606 (38.9)	6,974,102 (56.8)	531,929 (4.3)
1981-1985	11,371,912 (100.0)	10,635,083 (93.5)	7,499,026 (65.9)	3,136,057 (27.6)	736,829 (6.5)
1986-1989	11,192,059 (100.0)	8,383,000 (74.9)	3,357,000 (30.0)	5,026,000 (44.9)	2,809,059 (25.1)

Source: Economic Planning Board, *Major statistics of Korean economy* [various years].

Notes: a. The figures may not add up to 100.0% **because of** rounding

b. The figures in parentheses are percentages.

The discussion in the chapter has so far demonstrated that the state manipulated the TNA to secure political dominance. It also was able to establish an "embedded autonomy" of its bureaucrats. The triple non-alliance further allowed the state to subordinate domestic entrepreneurs and to contain inflow and activities of foreign capital and direct it to the desired objectives. The next section elaborates on the state's attitude toward the working class.

### **Labour force: (Suppressive policies)**

The discussion in this chapter has established the existence of the triple non- alliance form of interaction among dependency agents. According to this form, the state

assumed a dominant leading role in influencing the interaction of its bureaucrats, domestic entrepreneurs and foreign capital in a non-alliance manner. The form was conducive to the objective of achieving dependent economic development. These three elements are the prime motivators of an economic growth process as contemplated by the dependency model. However, the dependency model of the current research advocated a mechanism that revolves around three main agents but takes into consideration the role played by the labour class. This attitude toward labour is justified by two realities. First, cheap labour is the most important factor that enables a developing country to compete in the international market. This was clearly manifested in the case of Korea's export drive. According to John Lie, cheap labour was the "chief comparative advantage" that allowed "Korean enterprises to undercut their global competitors in such industries as textiles, electronic goods and footwear" (Lie, 1992, p.287). Second, the workforce has the potential to be an active part of the triple interaction. According to Jenkins, the subordinate groups (labour is chief among them) may, on the one hand, "increase the autonomy of the state" vis-à-vis the dominant class, and, on the other hand, they may also "reduce" its ability to implement its policies (Jenkins, 1991, p.209).

It is important to stress that the triple interaction mechanism was confined mainly to those classes that have a direct contribution to the economic growth process. And of course the labour force is one of the major players in this process. However, it was excluded from the mechanism, because - unlike other components of the TNA - the labour force was totally suppressed. Every other member of the TNA agreed to this suppression. Hence, labourers were not considered as an equal participant in the growth process. This was clearly demonstrated in the government's application of a one-sided policy of suppression toward the labour force, whereas it applied balanced



strategies of discipline and encouragement with regards to local capitalist and foreign capital. In brief, the state - unlike with other components of the TNA - did not really interact with the labour force; on the contrary it suppressed it.

The brief discussion in this section reviews the state's measures to suppress the working class. One distinguishing feature of the state's dealings with the labour class was its use of a one-sided policy suppression, whereas, by contrast, the state in Korea applied carefully balanced policies of enhancement and discipline in its interaction with domestic entrepreneurs and foreign capital. The exception to this was in its dealings with workers in the agricultural sector. Initial state policies favoured the agricultural sector, as manifested by the "cancellation of usurious" debts, the creation of the Medium Industry Bank and the establishment of the Agricultural Cooperative Federation. Against this, the state retained the right to appoint, rather than elect, cooperative staff. These agricultural associations served political objectives as a means to channel state funds to agriculture, in exchange for supporting the regime.

Unlike its attitude toward other classes, the state in Korea worked not only to subordinate the labour force but also to sustain suppressive measures towards it. The objective was to preserve Korea's export competitiveness. At this stage, the labour force did not enter as a bargaining chip in state dealings with other classes. Thus, immediately after assuming power and before the launching of the export drive, the state outlawed all unions. The Federation of Korean Trade Unions was reorganised and mandated with the task of organising all unions. It was subsidised by the state. The state also retained the authority to appoint all union leaders. Through this, the state was able to mediate, conciliate and arbitrate in disputes involving workers. This type of involvement gradually changed to a more forceful role to account for the

export drive (Haggard, 1990, pp. 63-64; Lie, 1992, p.287). In 1969, as part of its policy to attract foreign investment, the state enacted the Provisional Exceptional Law concerning labour unions and the settlement of labour disputes in foreign-operated firms. The Act limited labour activities and outlawed strikes in these firms. A further enhancement of this measure was carried out by the 1970 Law of Free Export zone. These measures were reinforced and extended by the 1971 Emergency Law, that stipulated special measures for safeguarding national security. It included the provision of suspending "indefinitely the workers' right to collective bargaining and action" (Koo and Kim, 1992, p.131). These repressive procedures culminated in 1972 with the Yushin constitution's work-related legislation. According to these measures, the state bluntly sided with the management against the workers' demands. The constitution allowed the state "to intervene on behalf of the management" (Lie, 1992, p.288). All these measures rendered the workers disorganised, weak and unable to form independent, recognised unions. In 1970, however, and after the suicide of one worker, the first underground workers' union was formed (Minns, 2001, p.1032).

Indeed, the state's ability to repress workers was also augmented by two other factors. The first was the presence of a large percentage of female workers within the labour force. They accounted for nearly 40 per cent of workers in the industrial sector. Women usually are less inclined to participate in union activities. Second, the labour force in Korea was characterised by an increased level of "turnover", a scenario that made it difficult to recruit union members.

These repressive labour measures contributed to the overall economic performance, especially export growth. However, the success at this stage was at the expense of workers' welfare. Because of the low percentage of workers engaged in union

activities in Korea (5 per cent, as compared to 10 and 20 per cent in Brazil), the industrial sector strikes were "extremely rare" (See Table (28)).

**Table (28): Industrial Disputes, 1964-72 (Number of Strikes and Thousands of Days Lost)**

	South Korea		Taiwan		Argentina (BA)		Mexico	
	Disputes	Days	Disputes	Days	Disputes	Days	Disputes	Days
1964	7	2	7	2	27	636	62	n.a.
1965	12	19	15	11	32	591	67	n.a.
1966	12	41	5	5	27	1004	91	n.a.
1967	18	10	5	13	6	3	78	n.a.
1968	16	63	20	2	7	16	156	n.a.
1969	7	163	2	10	8	150	144	n.a.
1970	4	9	31	24	5	33	206	n.a.
1971	10	11	9	2	16	159	204	n.a.
1972	0	0	57	3	12	153	207	n.a.

Source: ILO *Yearbook of Labour Statistics* (various years). Cited in Jenkins, 1991, p210.

As a result, the economy enjoyed significantly fewer working hours lost. According to some estimates, for the years 1964 to 1972, working hours losses in Korea were less than one third of those in Buenos Aires in a single year (Jenkins, 1991, pp. 210-

211). This was achieved, however, at the expense of workers' living conditions. Labourers suffered at government as well as management hands. State actions for dealing with the labour force were not confined to previously mentioned measures. Workers were regularly suppressed at the hands of the state, in disregard of the latter's regulations. Similarly, the workers suffered from corporations who ran an authoritarian type of management. As a result of all these measures, Korean workers had the highest number of working hours. They also were exposed to the highest rate of "fatal injuries". According to the International Labour Organization (ILO), Korea was top of the list for industrial injuries. Korea's rate was 0.18 compared to 0.01 for Japan, 0.022 for the U.S., 0.027 for the Philippines and 0.03 for Hong Kong. The misery of Korean working conditions was also manifested in the fact that, according to some estimates, one third of working class families lived in one room, whereas another third had two rooms to live in. Furthermore, Korean workers in manufacturing were among the lowest paid. In 1986, it was estimated that the average hourly payment for a Korean worker was \$1.39, as compared to \$2.3 for a worker in Singapore and \$1.67 for a Taiwanese counterpart. Indeed, these payments were estimated to be less than the minimum monthly income needed to sustain a family. According to Korean official estimates, in 1980 a family needed 270,000 won to sustain itself, whereas in the same year around 31 per cent of labourers received less than 70,000 won, 54 per cent obtained less than 100,000 won and 80 per cent received less than 200,000 won. Hence, this leads to the conclusion that the state export drive success can be attributed mainly to labour exploitation (Lie, 1992, pp. 288-290).

The brief discussion has addressed state policy toward the working class. It concluded that, although the working class enhanced Korean competitive advantage in the world market, it was not treated as a contributor to the triple non-alliance (TNA).

Strengthened by its success in controlling and containing TNA players, the state was able to neutralise the labour force, and "to ignore the interest of labour in formulating and implementing economic policy (Jenkins, 1991, p.212).

The discussion in the current chapter has so far demonstrated the state's ability to consolidate the triple non-alliance form of dependency interaction. Success was manifested in the following:

- The new rulers' firm grip over the political and security institutions of the state.
- The installment of an "embedded autonomy" type of state bureaucrat.
- The subordination of domestic entrepreneurship.
- The containment of foreign capital.
- The suppression of the working class.

The next objective of the current chapter is to attempt to establish an association between the TNA and the economic performance of the developmental state.

## **II. TNA performance:**

The current section seeks to relate the success of the state's interventionist policies to the TNA-related features. The discussion of the previous section revealed that the triple non-alliance presence was translated into an "embedded autonomy" form of bureaucrat. These bureaucrats were equipped with regulations and institutional settings that allowed their efficient intervention in the economy. They employed both incentives and discipline in order to enforce the state's strategies and objectives. Their interventionist roles were enhanced by a powerful state that created a conducive environment through controlling the political and security institutions. The state also subordinated private entrepreneurs to its will, allowing its bureaucrats easily to direct the earlier activities to serve state growth objectives. Through the existence of the

TNA, the state also contained the activities of foreign capital and was able to balance the need for its financial and technological aspects with the fear of its dominance in the domestic market. And, finally, through the TNA, the state manifested its ability to suppress other classes, such as labour. This feature enhanced the state's ability to implement its transformatory project. The current section attempts to relate the state's successful economic performance to the TNA-related features just summarised. Two phases may be identified. The first reveals the way in which the state manipulated these characteristics to place the economy on the growth track. The second reveals the state's success in utilising those features to deal successfully with the ensuing crises.

As a background to the current discussion, it is important to re-stress that the new military regime retained growth oriented strategies, as opposed to adopting a stabilisation policy. Second, the state adopted what is referred to as a "guided capitalism" strategy. According to this form of capitalism, "the principles of free enterprise ... will be observed but government will either directly participate or indirectly render guidance to the basic industries and other important fields (Haggard, 1990, p.64). Another point to stress is that the first five-year plan focused "on import substitution industries [and] not on export industries". The objective of the plan was to "create a self-reliant economy by terminating the previous aid-dependent and consumption-oriented structure" (Koo and Kim, 1992, p.120). The third issue to highlight as a background to the current discussion is the existence of continued U.S. pressure on the Korean government to undertake economic reform. The American demand on Korea was to undertake budgetary and monetary discipline. Aid was the prime tool to enforce this request. The United States wanted greater external participation (foreign investors--multinational institution) to share the burden of developing Korea. Lastly - in this background - is the fact that direct military rule was

replaced in 1963 by a civilian one, with General Park as head of state (Moon and Kim, 1996, p.143).

The first step of the new military rulers was to deal with the consequences of the two major currency devaluations undertaken in 1961 by the previous regime. The devaluations brought down the Korean won by 50 per cent from 65 won to 100 per dollar in January, 1961, and, again, from 100 to 130 won per dollar in February of the same year (Amsden, 1989, p.65).

To alleviate the difficulties faced by the producers, the military rulers came up with an "expansionary" package that increased the investment in public works and the salaries in the public sector, as well as guaranteeing high prices to farmers (Haggard, 1990, p.67). As mentioned earlier, the first five-year plan listed 22 priority projects in the sectors of electricity, fertilizers, oil refining, synthetic fibre and cement (Koo and Kim, 1992, p.126). By 1962, however, the result of this package was escalated inflation. The situation was exacerbated by the food shortage produced by the poor harvest of 1963. At this juncture, the Americans began to manipulate their aid programmes to press for a change in the economic orientation of Korea. Further, disbursement of aid was suspended in 1962. Food aid provided under PL 480 was decreased. At this stage, the state did not give in to the American pressures. The Korean policy makers resorted to external borrowing (Haggard, 1990, p.69). However, the move was hastily performed and proved unsuccessful, as the new rulers had no previous experience of foreign borrowing. Among the unanticipated difficulties were the high cost of borrowing, extra fees, short maturity repayments and state guarantees. As such, by November 1962, the state was forced to reduce importation of heavy equipment financed by foreign borrowing. As a way out of these

economic difficulties, in April 1963 the government finally gave in to American pressures and accepted the suggested stabilisation programme. The reform programme contemplated "ceilings" on monetary expansion, budget deficit, commercial credit expansion and foreign exchange reserves.

To counteract the negative consequences on the economy, the state increased significantly its subsidies to exporters (Amsden, 1989, p.66), with steps such as "preferential credits, indirect tax exemption on import into production and export sales; a 50 percent reduction in income tax export earning; tariff exemption on imported raw materials and equipment for export production, wastage allowances on imported raw materials for export production; government support for export marketing activities" (Kim and Roemer, 1979, p.46). These measures are indicated in Table (29) as the difference between the official and effective exchange rates (Amsden, 1989, p.67).

**Table (29): Exports of Manufactures<sup>a</sup> and the Exchange Rate, 1960-1965**

Variable	1960	1961	1962	1963	1964	1965
Exports (mil. U.S. \$)	4.1	5.7	9.6	38.6	57.7	106.4
Manufactured exports as percent of total export	12.5	13.9	17.5	44.5	48.4	60.8
Official exchange rate (won/dollar)	62.5	127.5	130.0	130.0	214.3	265.4
Export effective exchange rate <sup>b</sup>	147.6	150.6	151.5	189.4	281.4	304.6
<b>Individual items as percent of total manufactured exports</b>						



Processed food	36	21	14
Textiles	25	29	41
Lumber and plywood	07	10	14
Metal and steel products	10	21	13
Other	22	19	18

<sup>a</sup>Manufactures are defined as Standard Industrial Trade Classification codes 6, 7, and 8.

<sup>b</sup>The number of units of local currency actually paid or received for a \$1.00 international transaction. Surcharges, tariffs, the implicit interest foregone on guarantee deposits, and any other charges against purchases of goods and services abroad are included, as are rebates, the value of import replenishment rights and other incentives to earn foreign exchange for sales of goods and services abroad.

Source: For exports, Economic Planning Board, 1967. For exchange rates, Frank, Kim, and Westphal, 1975. For product breakdown, Hong, 1975. Cited in Amsden, 1989, p 67.

These increased subsidies produced an export increase from 1963. Under American pressure, the Korean won was devalued again in May 1964, by 50%. This prompted the state to increase its subsidies to exporters, as reflected in the table. Reform measures included fiscal measures to enhance government savings, as well as interest rate reform to encourage domestic savings (Koo and Kim, 1992, p.130).

These steps reveal the success of the TNA incentive feature of state intervention. This role was enhanced by another TNA state feature, that of coercion. According to Amsden, "in addition to subsidization, a strong element of coercion underlay Korea's phenomenal export performance". The state "increasingly made exports a compulsion rather than a choice for the private sector" (Amsden, 1989, p.95).

The third feature of the developmental state that enhanced its role in economic performance was the existence of an efficient, competent and engaged bureaucracy.

The "embedded autonomy" form of the bureaucrats was highlighted earlier. However, of relevance here was the establishment in 1965 of the joint Export Development Committee. The committee combined the private sector with state bureaucrats. Its prime objective was to submit recommendations to enhance export incentive measures. At a higher level was the National Export Promotion Meeting. This forum brought together ministers, high ranking officials, intellectuals, trade organisations and the chief executive officers of major chaebol. The gathering was so important that it was "religiously" attended by the president himself (Haggard, 1990, pp. 69-73).

Suppression was also another TNA-related feature of the state's role in promoting economic growth. The developmental state pushed through its export policies in spite of "protests of various groups". One of the interest groups ignored was that of the import substitution related industries, mainly the sugar and flour milling interests. The second hard-hit category was the farmers, who were stripped out of their previous favours. They were hurt by increased input prices (fertilisers), which they were forced to endure without any relief measures. Among the groups greatly impacted on were those involved in "the curb market" activities that were targeted by the interest rate reforms. Indeed, the success of these measures was demonstrated most in the state's ability to ignore the strong objection of individuals associated with the Military Assistance Program (MAP). These individuals lost the favours that had accrued to them from military aid-related "counterpart funds" associated with the MAP.

The developmental state's political strength - TNA-related - also enhanced the state's role in economic growth. This feature was manifested in the success of the state's endeavours to re-establish diplomatic and economic relations with Japan. The Korean state worked to settle its differences with Japan in exchange for much-needed

financial support. The agreement, which was negotiated in 1962, envisaged a financial package of \$600 million. More important, however, was its impact on enhancing economic relations with Japan. The deal was fiercely opposed at the political level as well as at the popular level. By this time, (1964), the regime was being pressed by the Americans to allow greater room for political expression. Fearing that the financial support would consolidate the regime's control of power, in March 1964, the opposition formed a grand coalition to stop the deal. Students took an active role by demonstrating fiercely to stop the negotiations. In response, the state reversed its lenient stand and, in June, imposed martial law. Owing to its control of the National Assembly, a bill approving the Japanese deal was passed. The difficulties faced by the state in the early years of the first five-year plan forced a major reorientation in its policies, namely, the American pressures for stabilisation, the need to adjust the balance of payment deficit and the ensuing inflation led the state to change its strategy away from import substitution and toward export-oriented industrialization. By 1963 and 1964 exports had rebounded and by early 1965 exports had become a prime end for the Korean state (Amsden, 1989, pp. 7-95; table (13)). In order to consolidate this newly adopted export promotion industrialisation, the state, under the TNA dependency mechanism, worked at encouraging investment. Earlier in the chapter it was demonstrated that, through the TNA, the state was able to control the flow of both domestic and foreign credits. However, the external pressures from the United States and the International Monetary Fund (IMF) forced the state to initiate interest rate reform. In the first phase, interest rate ceilings were raised in August 1965 and by the end of September of the same year domestic interest rate were doubled. The rise was carried out through the National Assembly, as a manifestation of the state's political control. The move was also carried out in spite of strong opposition by

Korean entrepreneurs. However, to counteract the negative impact of this reform, the state instituted a multiple exchange rate system. As a result of this regime, the cost of borrowing abroad became lower than that of domestic borrowing. Indeed, as indicated in Table (23), in most of the 1960s and the 1970s the interest rates on foreign loans were negative. This allowed the state a powerful instrument with which to influence economic activities and contributed significantly to its success. These interest rate reforms increased Korea's dependence on external debts. Table (30) shows that the ratio of foreign debt to GNP increased from 4% in 1963 to 30% in 1971.

**Table (30): External Debt and Debt Service, 1963-1984**

Year	Total			Debt	Debt	Debt Service
	Foreign	Long-Term	Total Debt as % of GNP	Service	Service	as % of
	Debt	Debt as %		as % of	as % of	Current
	(million U.S.\$)	of Total		GNP	Exports <sup>a</sup>	Transactions Receipts <sup>b</sup>
1963-1971						
1963	157	85.99	4.06	0.05	2.30	1.1
1964	177	94.35	5.29	0.15	4.17	2.4
1965	206	98.54	6.81	0.46	8.00	4.8
1966	392	98.21	10.26	0.34	5.20	2.9
1967	645	89.77	13.62	0.72	10.15	5.3
1968	1,199	92.58	20.07	1.20	9.47	5.2
1969	1,800	89.22	24.07	1.20	13.68	7.8
1970	2,245	83.39	25.48	2.84	28.34	18.1
1971	2,922	83.61	30.06	3.28	28.16	19.7
1972-1978						
1972	3,589	82.17	33.95	3.87	24.40	18.4
1973	4,260	83.54	31.55	4.35	17.87	14.2

1974	5,937	79.13	32.01	3.25	13.33	11.2
1975	8,456	71.51	40.55	3.38	14.01	12.0
1976	10,533	71.09	36.73	3.50	12.85	10.6
1977	12,648	70.63	33.79	3.58	13.33	10.2
1978	14,871	74.08	29.71	4.16	16.38	12.1
<b>1979-1984</b>						
1979	20,500	67.80	31.75	4.03	17.68	13.3
1980	27,365	61.22	44.68	4.81	17.13	13.1
1981	32,490	63.80	48.34	5.53	17.98	13.8
1982	37,295	61.94	52.65	6.23	21.15	15.5
1983	40,094	70.58	53.23	6.18	20.07	15.0
1984	43,100	73.55	53.16	6.74	20.75	17.3

GNP, gross national product.

<sup>a</sup>Merchandise exports

<sup>b</sup>Receipts from visible and invisible foreign transactions.

Sources: Bank of Korea and Economic Planning Board. Cited in Amsden, 1989, p 95.

Similarly, the debt service ratio as a percentage of export increased from 14% in 1969 to 28% in 1970. On the other hand, interest rate reform produced positive trends for both investment and savings. Table (31) indicates that investment share in GNP doubled from 15% in 1965 to 30 per cent in 1969. Furthermore, the share of savings also increased at an accelerated rate, as indicated by column 7.

**Table (31): Savings, Investment and Consumption, as Per Cent of Gross National Product, 1962-1984**

Year	Gross Fixed Capital Formation (1)	Increase in Stocks (2)	Total Investment (3) = (1)+(2)	General Government Savings (4)	Public and private Corporations' Savings (5)	Household and Private Nonprofit Institutions' Savings (6)	Total Savings (7)=(4)+(5)+(6)	Deficit of the Nation and Current Account	Difference Between Investment (1) and Savings (4)
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						(6)		(8)	(9)=(1)-(4)
1962	13.95	-0.90	1304	4.63	7.91	-0.97	11.58	1.86	-1.47
1963	13.94	4.43	18.33	4.41	7.76	3.45	11.65	4.05	-2.75
1964	11.56	2.97	14.53	4.61	7.00	3.61	15.22	0.84	0.69
1965	14.60	0.10	14.70	5.83	8.07	0.18	14.09	-0.16	-0.16
1966	19.96	1.66	21.62	5.68	7.72	4.15	17.56	2.72	-4.06
1967	21.25	0.66	21.91	6.83	8.16	1.38	16.36	4.18	-5.55
1968	25.54	1.20	26.74	8.17	8.19	3.06	19.43	7.73	-7.31
1969	26.74	3.29	30.02	7.36	7.97	7.45	22.78	7.73	-7.25
1970	25.60	2.39	27.98	7.62	7.67	3.51	18.80	7.59	-9.18
1971	21.52	3.61	25.13	5.57	7.53	3.17	16.27	8.73	-8.86
1972	20.00	2.22	22.22	3.64	8.72	5.70	18.06	3.48	-4.16
1973	23.38	2.30	25.68	3.99	11.17	8.98	24.14	2.29	-1.54
1974	25.31	6.34	31.65	2.25	11.36	7.04	20.65	10.93	-11.00
1975	25.50	4.53	30.02	3.76	9.81	6.61	20.18	9.05	-9.84
1976	24.09	1.54	25.62	6.05	10.21	8.81	25.07	1.09	-0.55
1977	26.66	1.08	27.75	5.11	10.68	12.30	28.09	-0.03	0.34
1978	30.81	0.38	31.19	6.17	9.94	13.28	29.40	2.17	-1.78
1979	32.77	2.88	35.65	6.74	9.75	12.29	28.78	6.43	-6.87
1980	31.91	-0.66	31.26	5.67	10.29	6.63	22.59	8.67	-8.67
1981	28.85	0.29	29.15	6.12	9.34	6.96	22.42	6.91	-6.73
1982	30.29	-3.27	27.00	6.18	9.69	7.23	23.09	3.77	-3.90
1983	31.84	-4.07	27.77	7.46	10.28	7.89	25.63	2.09	-2.14
1984	30.95	-0.97	29.98	7.64	10.43	9.93	28.00	1.68	-1.98

<sup>a</sup>Negative value equals surplus. Cited in Amsden, 1989, p 75.

What is important to stress is that, owing to these interest rate reforms and other measures discussed earlier, Korea became dependent on foreign loans, rather than

foreign direct investment. Table (19) demonstrates that total loans constituted more than 94% of foreign capital.

As such, Korea represents a new case of dependency, one in which multinationals played a lesser role in its development, as compared to foreign loans. On this issue, the state "showed a preference towards public and commercial loans to foreign direct investment. Foreign loans provided the necessary foreign exchange without the involvement of management control by the multinational corporations" (MNCs). (Koo and Kim, 1992, p.127).

The relevance of the triple non-alliance state-related policies to economic success was reinforced further by the state's handling of the ensuing economic crisis. By the late 1960s, the economy had begun to show signs of problems. However, the state's response indicated both the competence of its "embedded autonomy" bureaucrats and its strength. On the economic level, the Korean economy faced a stressful situation because the first principal instalment on commercial loans had become due ( Koo and Kim, 1992, pp. 130-131). Second, Korean firms suffered from debt service difficulties as a result of the Korean won devaluation from won 272 to \$1 in 1967 to 392 to 1 in 1972. The debt service ratios as a percentage of exports rose from 9.5% in 1968 to 13.7% in 1969 and to 19.4% in 1970. To meet their immediate need for cash, Korean corporations resorted to the costly curb market. Many of them went out of business. Foreign investments were hit hard. To contain the situation, the state intervened and took over many troubled companies between 1969 and 1971. The situation was aggravated by an unstable labour force. Wages continued to increase at 8.8%. To deal with this situation, the state worked at two levels. At the political level, the state reinforced its dominant position and suppressed its opponents. State measures at this

level were described earlier. In summary, they included a 1969 provisional exceptional law on work force, the 1971 Law on State Emergency Proclamation and the law concerning special measures for safeguarding national security. Labour force suppression was the main objective.

President Park, in 1969, changed the constitution, to allow him to run for another period. This was carried, despite widespread public protest. Along with political repression, the deteriorating economic situation hurt the political position of Park, who narrowly won the 1971 presidential election. Another blow came in May of the same year when the opposition groups threatened the majority of the ruling party. However, the unlimited strength of the state was demonstrated by Park's swift move against his opponents. As explained earlier, in 1972, Park dissolved the Assembly, declaring in October the birth of the Yushin authoritarian state. Now presidential tenure was extended to six years, with no term limitation. The democratic process was practically halted. The president was now elected indirectly. The president, according to the new constitution, retained the right to dissolve the National Assembly, as he deemed necessary, for national security considerations (Moon and Kim, 1996, pp. 143-144).

At the economic level, the IMF, worried by the escalating debt service ratio, pressed Korea to adopt measures to arrest the growth of external debt. Hence, the foreign debt growth rate was reduced by 25% and 30 per cent in 1970 and 1971 respectively. However, the measure led to investment reduction. Consequently, exports also declined from 36% in 1968-1969 to 27% in 1970-71. Monetary growth also slowed down, from 61% in 1969 to 27% in 1970. Overall economic activities suffered, as



indicated by the decline of the GNP growth rate from 13.8% in 1969 to 7.6% in 1970 (Table 32).

**Table (32): Basic Macro Indicators, 1962-1984 Each Year**

<b>Year</b>	<b>GNP Growth Rate (%)</b>	<b>Change in GNP Deflator</b>	<b>Export Growth Rate<sup>a</sup></b>	<b>Export Growth Rate<sup>b</sup></b>	<b>Real Effective Exchange Rate<sup>c</sup></b>	<b>Ratio, Current Account/GNP</b>	<b>Terms of Trade<sup>c</sup></b>
1962	2.2	13.5	31.7	31.0	112.0	-2.0	NA
1963	9.1	28.3	61.1	61.6	134.4	-3.7	111.3
1964	9.6	30.0	37.9	37.6	106.3	-0.8	112.5
1965	5.8	6.3	45.8	43.0	91.6	0.3	114.3
1966	12.7	14.2	42.9	38.3	96.1	-2.7	127.7
1967	6.6	15.8	34.0	33.7	107.9	-4.1	132.2
1968	11.3	15.9	45.1	41.5	115.2	-7.4	137.7
1969	13.8	14.6	35.4	30.3	120.1	-7.3	132.6
1970	7.6	15.7	34.0	29.3	124.2	-7.1	133.8
1971	8.8	13.4	28.5	24.3	120.7	-8.7	132.7
1972	5.7	16.4	47.9	41.7	109.4	-3.5	132.1
1973	14.1	163.4	95.9	73.2	92.4	-2.3	125.4
1974	7.7	29.5	37.5	15.7	93.6	-10.9	102.1
1975	6.9	25.8	10.8	1.4	93.5	-9.0	92.1
1976	14.1	20.5	56.2	49.2	103.4	-1.1	105.1
1977	12.7	15.8	28.6	21.1	103.9	0.0	112.4
1978	9.7	21.9	26.5	17.4	101.0	-2.2	117.8
1979	6.5	21.1	15.7	2.8	110.7	-6.4	115.8
1980	-5.2	25.6	17.1	2.6	100.0	-8.7	100.0
1981	6.2	15.9	20.1	10.0	103.1	-6.9	97.9

1982	5.6	7.1	1.0	-1.0	106.9	-3.7	102.2
1983	9.5	3.0	11.1	9.8	100.2	-2.1	103.1
1984	7.6	4.0	13.5	10.9	97.8	-1.7	105.3

<sup>a</sup>GNP, gross national product; NA, not available. In nominal U.S. dollars.

<sup>b</sup>Export value deflated by U.S. wholesale price index.

<sup>c</sup>1980=100

source: Bank of Korea and International Monetary Fund. Cited in Amsden, 1989, p 56.

The state's economic response was carried out in two phases. To stimulate export activities, a currency devaluation of 12% was undertaken in 1971 (Amsden, 1989, p.96). However, the measure backfired, as it resulted in a significant increase in the won cost of foreign borrowing firms. They faced acute short-term financial problems. To deal with this situation, the state intervened and bailed out many troubled firms. This type of state response could not have been possible without the government control over credit flow. On August 3, 1972, the state enacted the presidential Emergency Decree "that would be difficult to conceive in democratic capitalist societies" (Koo and Kim, 1992, p.132). Two objectives were stipulated in this decree. The first was to stimulate investment through overall reduction of interest rates of the financial institutions. As such, rates on time deposit were brought down from 17.4% to 12.6%. The interest rate on loans of one year and below was reduced from 19% to 15.5%. The second objective was to lessen the cost of borrowing of overstretched companies. These measures were directed at lenders in the curb market. The decree abolished all existing loan contracts between Korean firms and unofficial lenders and these were replaced by new favourable ones. According to these, borrowers would be given a three-year grace period, after which they would have to repay their financial loans over a five-year period at substantially lowered interest rates; and (2) there

would be the replacement of a large amount of short-term loans (worth more than \$500 million) by long-term loans at a lower interest rate, payable over a five-year period after a three-year grace period. In addition, the government established a new industrial nationalisation fund with some \$125 million and lowered the overall bank interest rates. This aggressive intervention produced astonishing success. By 1973, the GNP registered a remarkable 14.1% increase. The drive behind this impressive recovery was the "staggering" export growth of 73%.

Encouraged by this remarkable success, the state embarked on an even more ambitious project. It was the move from labour intensive industrialisation toward heavy industrialisation. In January, 1973 Park unveiled his plan to enter into heavy and chemical industrialisation. Six priority projects were selected: steel, electronics, petrochemicals, shipbuilding, machinery and non-ferrous metal.

Geopolitical considerations were also prime causes for these moves. Certain developments at strategic levels had left the rulers feeling unsafe. The United States had begun a major realignment drive regarding its relations in the region, shown through President Nixon's visit to China and the start of the termination of the Cold War. Furthermore, the United States adopted a new doctrine, requiring its allies to be more self-reliant in defending their countries. The new strategic position was translated into a partial withdrawal of American troops from Korea in 1971. This trend explains Korea's new emphasis on military-related industries. Furthermore, the plan to move into heavy industries was also influenced by international economic considerations. Among these was the desire to create a more stable economy after the instability in the international financial system following the collapse of the Bretton Woods mechanism in 1971. Furthermore, the move was motivated by the desire to

catch up with Japan, which by this time had relinquished labour intensive heavy industries in favour of high-tech sectors. The world was also witnessing a new wave of protectionism. This move was also vital to enhance the political standing of President Park, who had become an absolute, dictatorial leader. Especially as a result of industrialisation, by the early 1970s society had become increasingly stratified at both political and social levels. Labour-associated disputes increased, students became more politically active and political opposition to the regime increased. It was vital for Park to legitimise his authoritarian rule by economic success. And in this regard, he promised a 10 billion level of export, a \$1000 GNP level and a "my-car age".

However, the implementation of the plan was suspended, owing to the first oil shock of 1973. The immediate impact of the oil price increase was a reduction in export growth and foreign investment, as well as heavy industrial investment, slowed down; considerable over-capacity and acute financial problems hit many big industrial firms. Planned industrial projects were also deferred or cancelled.

The state's response was swift, representing the reaction of a state that was in full command of the economy. It decided to absorb fully the price increase. Consequently, the cost of imports escalated by 62% in 1974. Furthermore, the domestic credit facility increased by more than 40%. As a consequence, investment share in the GNP increased from 26% in 1973 to 32% in 1974 (Table (31)). Exports growth rate reached 16%; however, the balance of payment deficit witnessed a five times jump to reach 11% of GNP (Table (32)). The increasing current deficit was met through foreign currency reserves and through external borrowing. As in the previous crisis, these interventionist policies produced impressive growth rate figures. The GNP grew

to 7.7% in 1974 and to 6.9% in 1975. The achievement was remarkable, considering that other non oil-producing countries were suffering from depression. Fast growth was back on track, as the GNP grew by 14.4% and exports by 49.2% in 1976 (Table 32)) (Amsden, 1989, pp. 56, 96, 110, 112; Koo and Kim, 1992, pp.132-134).

The economy continued to "soar" from 1976 to 1977, promoted by the build-up of heavy industry and the associated infrastructure. By 1977, the output growth rate was 12.7%. The trade balance had also improved to only 0.0% of GNP in 1977 and -2.2% in 1978 (Table (32)). However, in 1977, and as a result of Korea's participation in the Middle East construction boom, the current account registered a positive \$12 million figure for the first time in Korea's history. These favourable economic conditions prompted the state to resume from 1977 to 1979 the implementation of the postponed heavy and chemical industry (HCI) plan. The focus on HCI strategy was extensive to the degree that by the end of 1979 heavy industrial exports exceeded those of textiles and apparel by 38% and those of shoes by 35 per cent. The economy began to exhibit signs of problems as a result of the emphasis on HCI, as it led to structural problems associated with chaebol over-concentration. Many large firms suffered poor financial performance and this led them toward "insolvency".

Massive external borrowing was also carried out, to finance heavy and chemical industry projects. The second oil shock dealt a serious setback to the economy. The trade balance deteriorated because of a doubling of imports cost and a decrease of exports earnings. The situation was further worsened by the spread of protectionism in the industrialised countries. The trade deficit jumped from \$1.1 billion in 1978 to \$5.3 billion in 1980. Inflation doubled from 14.5% in 1978 to 28.7% in 1980. Korean

business began to lose its competitiveness in the export market as a result of wage increases.

To respond to these developments, and pressed by the IMF, the state came up in April 1979 with a stabilisation and liberalisation package. The plan envisaged halting wage increases and reducing subsidised loans, as well as curtailing agricultural subsidies. However, the accompanying social and political instabilities were widespread. The crisis led to friction within the state and culminated in the assassination of President Park in October 1979 (Moon and Kim, 1996, pp. 138, 139, 143; Gills, 1994, p.208).

The absence of the developmental state head did not mean the end of the developmental state, however; the stabilisation policy continued from mid-1979 to the end of 1982. It included the same prescriptions: the government assumed responsibility for promoting investment and making up for the slowdown of private savings and investments. The state worked to lower the cost of borrowing to help depressed firms. The state carried out "massive behind-the-scenes bailouts" as well.

According to Amsden, the state responded to the ensuing crisis "by borrowing abroad and by resorting to fairly unorthodox measures: driving down interest rates, allowing the exchange rate to appreciate after devaluation, and not allowing any but a trivial number of leading enterprises to go bankrupt. The Korean government may have disciplined private firms more than other governments in late-industrializing countries, but it also provided them with staunch support" (Amsden, 1989, p.105).

The previous discussion demonstrated that these successful policies were related to the state's character, which was a product of the existence of a TNA form of dependency mechanism. The overall performance of the developmental state was outstanding. Per capita income jumped from \$82 in 1961 to an astonishing \$1,546 in

1979, whereas export grew from a mere \$40.9 million in 1961 to \$15 billion in 1979. Furthermore, unemployment figures went down from 8.1 per cent in 1961 to 3.8 per cent in 1979. Most remarkable, however, was that, after that initial failure of the heavy and chemical industry project, it proved to represent a major positive force in enhancing the competitiveness of Korean products throughout the 1980s (Moon and Kim, 1996, p.143).

To conclude, the last section of the current chapter related the success of the state's economic policies to the presence of the TNA dependency mechanism. Two phases were identified throughout the discussion. The first explained the relation between the state's interventionist role and the TNA mechanism, which placed the Korean economy on the growth track. The second phase elaborated on the association between the state's success and the triple non-alliance form of dependency interaction in dealing with the emerging crisis.

The discussion revealed that all the state's successful interventionist policies were made possible because, first, it was able to establish an "embedded autonomy" form of bureaucrats, through which the state strengthened its political and social domination over the existing classes. Second, the state was successful in subordinating the private sector. Similarly, it was able to contain the flow and the activities of foreign capital. And, finally, the state's success was also attributed to its ability to suppress other social groups, such as the labour force and student association.

The research has so far substantiated the proposition that the developmental state's success in achieving healthy economic growth (Korea's growth pattern) was attributed to the existence of a triple non-alliance (TNA) form of dependency

mechanism (the hypothesised model). It accomplished this in three stages. First, the research traced the birth of the TNA form of dependency interaction in the evolution of the Korean social structure. Second, the research emphasised the state's efforts to utilise the presence of the TNA to form "embedded autonomy" bureaucrats. And it was demonstrated that the state consolidated the TNA further through controlling the domestic capitalist class, the flow of foreign capital and the suppression of the working class. The study associated the state's successful economic intervention - as demonstrated by positive economic results - to its TNA-related features.

The next objective of the current research is to test the viability of this model (the last step in critical naturalism approach), that is, to establish an association between the TNA dependency model and the fate of Korean economic development in the globalisation era. According to the research's approach, the occurrence of a crisis is one means of testing the viability of the hypothesised model. Beginning from the 1980s, and in response to globalisation, the developmental state embarked on a liberalisation drive. Soon after that, however, in the late 1990s, the economy suffered from a severe economic crisis that prompted some to question the viability of the developmental state. However, the state succeeded in weathering this major crisis. The questions at this juncture are: in the era of globalisation, is the TNA form of dependency interaction a valid one? What is the relationship between the TNA and the 1997 economic crisis? Has the impressive economic recovery to do with the TNA? Is the developmental state form still a valid one?

Answers to these questions are the subject of the next chapter.



## **Chapter Nine**

### **The Global Developmental State (GD)**

By the end of the last chapter, the research had accomplished its main objective. It had shown that the triple non-alliance (TNA) is the actual model that explains the success of the Korean economic growth pattern. The ascendance of globalisation exposed the Korean phenomenon of economic growth to a serious test. In its attempt to respond to globalisation changes, the developmental state in Korea embarked on liberalisation policies in order to adapt its economy to the newly emerging realities. Beginning in the 1990s, the pace of liberalisation accelerated significantly. The process resulted in economic difficulties that culminated in the 1997 financial, turned economic, crisis. The state, however, was able to put the economy back on the track of recovery and continuous growth. These developments of crisis and subsequent recovery raise important questions: is the triple non-alliance mechanism still the relevant model to account for the crisis, and for the subsequent recovery? That is to say, has the crisis resulted from the loss of the TNA and the embedded autonomy? And is the subsequent recovery due to the state's ability to re-establish the TNA and the embedded autonomy? By adapting to globalisation, does the developmental state still preserve its form and authority, or have the aggressive liberalisation measures produced a different kind of state? The current chapter attempts to address all these questions. It is divided into two main parts. The first covers the years of the early 1980s to the early 1990s. During these years, the developmental state was pressured to undertake liberalisation measures. These measures included a restructuring of both the political and the economic sector. On the economic level, the liberalisation-motivated policies succeeded in dealing with problems the economy was facing,

whereas, at the political level, the liberalisation pressures produced a rapid stratification of Korea's social and political structure. It strengthened the role of opposition forces and gave rise to new ones. The configuration culminated in the birth of democracy. The advent of a democratically elected state represented the first major change in the form of the developmental state.

The second part of the current chapter covers the years from the early 1990s to the year 2000. Throughout those years, the pace of globalisation intensified. This prompted another round of state response and adaptation. The objective was to adapt the state's policies and regulations to newly-emerging globalisation realities. It undertook aggressive reform policies, directed at financial as well as industrial sectors.

The prime target of these policies was the state's regulatory and supervisory institutions. As such, by the mid 1990s, the state had abolished almost all its supervisory regulations. The move represented the second major change in the role of the developmental state. These globalisation-motivated reforms were conducted in a fairly rapid and hasty manner. As such, they created an institutional vacuum, according to which the state lost its leading role in influencing and supervising the triple non-alliance interaction. The power of state bureaucrats was greatly diminished, whereas the role and strength of domestic capital in the economy increased. Accordingly, the balanced TNA was lost. Domestic capital succeeded in capturing the state's bureaucrats, as was demonstrated by the widespread corruption cases. A series of bankruptcies hit many Korean corporations from the second half of 1996. These cases negatively affected the economy, as was reflected in the deteriorating financial

conditions. Foreign capital confidence in the health of the economy was jeopardised, which prompted a mass exodus of foreign capital from Korea. The situation continued to unfold dramatically, producing a severe financial crisis in late 1997. The crisis represented the third major shift in the developmental model toward the new global state model. The IMF agreement of December 1997 represented a birth certificate for the new global developmental state model (GD).

The chapter demonstrates that the newly-born global developmental (GD) state moved rapidly to regain its lost influence. It was successful in re-establishing the triple non-alliance interaction, and, through the TNA, the embedded autonomy was reinforced. The first step in this regard was the reinstitution of the supervisory system. Next, the GD state targeted the private sector (chaebol) by using various disciplinary measures.

The last part of the chapter seeks to substantiate the success of the GD state to steer the economy out of its economic difficulties.

### **1. The years from the early 1980s to the early 1990s:**

This section covers liberalisation measures that were undertaken during the years of two Korean presidents: Chun Doo Hwan and Roh Tae Woo. Three issues are emphasised throughout the discussion. First, the section elaborates on motives of the liberalisation process. Second, it reviews features of the said process. And third, the discussion reflects on the impact of these changes on the state's ability to preserve the TNA. The discussion reveals two phases in the liberalisation drive. The first phase is associated with Chun Doo Hwan and is characterised by economic measures. Two main results may be identified as an outcome. First, the state retained its regulatory

and supervisory system intact. Second, the economic restructuring strengthened opposition forces, which increased their pressure for political participation. This pressure culminated in the birth of a democratic state. The second phase of liberalisation was primarily a political one and associated with Roh Tae Woo. The review indicates that the process, similarly, did not reduce the state's ability to maintain the TNA interaction. The elaboration presents economic results as a validation of these conclusions.

Before proceeding, however, it is important to stress that the state's response to the liberalisation process is to adapt its role in the economy to correspond to the new realities of globalisation. The nature of its intervention was to move away from a “governed market” into “a self adjusting” one. It involved “the tendency to increase market determination of the allocation of resources” (Gills, 1996, p.673). The liberalisation drive in this regard entails three components. It involves a process of reorganising government institutions. Second, the restructuring seeks a redefinition of the state economic role, from heavy intervention toward giving more roles to the private sector, that is, abolishing the state's regulatory measures, such as protectionism, subsidies, favoured loans and other promotions. The third component of liberalisation is a gradual movement towards internationalisation and, ultimately, towards globalisation. This feature implies rearranging regulations that govern trade, foreign capital and technology (Hamilton and Kim, 1993, p.110).

**Domestic factors:**

One of the main domestic factors that motivated the liberalisation drive of the early 1980s was the fact that the developmental state had come under great pressure by the late 1970s. On the political front, the ruling party in the 1978 election was able to control the National Assembly only by direct appointments of members by the president, as candidates of the opposition political party won the majority of seats. This was a clear indication of popular resentment of the regime. Another demonstration of the tense social situation was the strike by the YH trading company, in which the police employed force to break it up by attacking the opposition party headquarters. The government faced street riots in protest at its attempt to unseat the opposition party leader from the National Assembly. These two incidents fuelled a widespread anger against the state. Friction grew within the ruling party on how to deal with this escalating situation. The development “ended with the head of the Korean central agency” assassinating President Park (Minns, 2001, p.1033).

The new ruler (Chun) continued to face mass demonstrations throughout Korea. These demonstrations were led by students and workers, with no real involvement of other segments of society. Specifically, the middle class did not take part in the revolt at this stage. The prime demand of the protesters was “democracy and social justice” (Hamilton and Kim, 1993, p.116).

The second domestic motivator of the liberalisation drive concerns the economic situation. By the time of seizing power, Chun faced a worsening economic condition. The growth rate had plummeted to a negative 5.5% and the current account recorded a deficit of \$5.5 billion, whereas the foreign debt had soared to \$34 billion. Furthermore, the inflation was well above the 30% level. Hence, the way out was

conceived by the new ruler to be through liberalising the economy (Moon and Kim, 1996, p.145).

The third domestic reason behind Chun's move to liberalise was the lack of legitimacy of his rule. As he had seized power in a military coup, public support was badly needed for the stability of his rule. Adopting new economic and political policies were vital measures in this regard (Hamilton and Kim, 1993, p.117). The fourth domestic reason behind the continuation of the liberalisation programme was the need to restructure the economy to respond to the newly- emerging realities of the Korean economy. In particular, the maturity and soundness of the Korean economy necessitated a need to change state policies in order to enable Korean businesses to continue to grow. The economy became mature. Thus, economic policies needed to reflect and respond to this fact.

#### **External factors:**

Since the late 1970s, there had been a steady change in the external regimes, both trade and finance. The developed nations started to press for reciprocity in their relations with the rest of the world in the field of trade regime. Throughout the 1970s and the 1980s, Korea, among other countries, was a target of "the orderly marketing arrangement (OMAs) and voluntary export restraints (VER)" (Chu, 1995, pp. 208-209). In spite of these arrangements, Korea had by 1988 accumulated a current account surplus approaching \$14 billion. Its foreign reserve exceeded \$10 billion in the same year. This economic success made it a prime target of the advanced countries, mainly the United States with its "super section 301 of the Trade Act".

Another development related to trade regime was the emergence of trading blocs, as well as growing signs of protectionism. These developments prompted a gradual shift

of Korea's trade, redirecting it away from these countries. It was further engaged in the formation of regional trading blocs.

Similarly, rapid changes were taking place in the finance regime. A process of capital market liberalisation was initiated by countries of the Organization for Economic Co-operation and Development (OECD). These changes, along with technological advances, led to "increased capital mobility" that produced pressures on the financial systems of the new, industrialising countries. In this field, the advanced nations, led by the USA, pressed developing countries to liberalise their financial systems. The third external factor that influenced Korea's restructuring programme was the change in global production toward "higher - value – added, knowledge- intensive" products. These changes placed great pressures on the newly developing countries to restructure their industrial sector and develop technological capabilities, so as to be able to face the challenges and to benefit from the new opportunities offered by these advances. The fourth external factor that prompted a process of economic and political restructuring concerns security considerations. The demise of the Cold War and the "receding" of the socialist military threat had, indeed, lessened the need for American protection. Thus, the immediate concern of countries such as Korea was less with security considerations than with economic opportunities. The last external factor was the global trend of democratisation in the 1980s. For a developmental authoritarian state such as Korea, the democratisation trend would certainly impact on the social basis of its development (Chu,1995, pp. 208-214).

### **Economic liberalisation:**

This section reviews economic liberalisation measures. It elaborates on the features of this restructuring drive. Next, the review evaluates the impact of these policies on

power relations among dependency agents. Specifically, the review seeks to trace the impact of liberalisation policies on the state's ability to maintain the TNA form of interaction.

Korean economic liberalisation reforms entailed four main features. The first involved a reprioritising of state economic objectives. The most obvious is the downgrading of the growth objective from being the foremost state concern to being one of several major objectives. This marked change is demonstrated in renaming the five-year economic plan to include social components. To correspond to this change, the plan revealed an increased share in money allocation for social services. Now government expenditure on social services in the plan increased from 25% in 1976 to 40% by 1990. Foreign policy was also another field which gained an important emphasis. Especially during Roh Tae Woo's rule (1988-1993), Korea embarked on aggressive diplomatic as well as trade contacts with its former rivals in the socialist countries, North Korea and China. The issue of re-unification with the North gained important emphasis and, in this regard, the government re-ranked the Minister of Unification (with the North) to level of Deputy Prime Minister (Nora and Kim, 1993, p.117). The motive behind this new policy objective was economic. This is revealed by the establishment of an international private economic council. The institution was mandated with the promotion of Korea's trade relations with these countries. Priorities of course were given to developing trade contacts with North Korea. In 1994, Korea approved nine joint projects with the North. Trade relations with China (mainland) also gained prominence. In 1989, Korea opened its first trade representation in China. Two years later, a Most Favoured Nation agreement (MFN) was signed by the two parties (Chu, 1995, p.215).



Second, the economic liberalisation targeted the famous industrial policy. According to Chang, “the dominance of industrial policy with a view to industrial upgrading has been the most distinctive feature of Korean state intervention” (Chang, 1993, p.141). However, with the economic liberalisation, the substance of industrial policy became “regulatory” rather than developmental (Nora and Kim, 1993, p.117). The crux of the industrial policy was the “policy loans”. Through this policy, the state mobilised 57.9% of total bank loans as soft loans between 1962 and 1985 (Chang, 1993, p.141). This policy continued throughout the fifth and sixth five-year plan periods (1982-1991). The liberalisation of financial policy involved changes of state role from being “prohibitive” before 1980 to adopting a "preventive" attitude after that year. The other feature of liberalisation in this field was the dependence on informal discipline by state bureaucrats in influencing chaebol and other recipients of state help. The next characteristic of state industrial policy reforms was that they corresponded to the changing economic conditions.

The financial liberalisation drive was primarily motivated by pressure from big domestic business groups (chaebol). They considered the existing financial controls as inhibiting their ability to mobilise capital and to direct their own investment and, ultimately, their continued growth. Their desire was supported by external pressure from the United States and international institutions such as the IMF and the World Bank. The chaebol, however, wanted at the same time government financial protection and the continuation of soft credit (Amsden and Euh, 1993, p.380).

The need to apply an industrial policy in the case of Korea decreased as the economy became mature. Korea’s economic experience revealed that, as the economy grew, the need for industrial policy lessened because the relative number of firms needing

support decreased. As part of its liberalisation programme, the state in 1986 introduced the new “industrial development law IDL” (Chang, 1993, p.142). The law restricted the subsidised loans to four categories: the first was the infant industries; second, the ailing firms; third, firms suffering from bottleneck difficulties; lastly, the industrial policy intended to reduce financial costs “for wider and wider firms” (Amsden and Euh, 1993, p.380). However, as in almost all state reform programmes, “the major characteristics of Korean industrial policy have changed very little with the introduction of IDL” (Chang, 1993, p.144).

The third most important reason for financial reforms was to respond to the steep rise in the cost of borrowing that threatened the efficiency of the industrial policy. Furthermore, Korea had exhausted the external sources to fund its industrial process. Hence, the substance of the liberalisation policy changed towards domestic financial funding, rather than external, and from banking institutions toward issuing bonds and equities (Amsden and Euh, 1993, pp. 380-1). The state responded to these imperatives by means of two types of policy. First, it kept down the cost of capital (interest rate). The state, in 1982, removed special lending privileges and equalised all bank interest rates at 10%. Beginning in 1981, the state started to sell its shares in private banks. The state also reduced its intervention in the private sector by “simplifying licensing procedures” (Hamilton and Kim, 1993, p.118).

The banking deregulation process in Korea started in 1984; according to this, the majority of commercial banks were privatised. However, the state secured itself as the major shareholder by not allowing any single holder more than 8% (Chu, 1995, p.223). In reality, however, certain firms continued to enjoy better terms on loans. In 1988, the state freed interest rates from restrictions. Again, this was the theory,

whereas the reality was that interest rates were not allowed to rise significantly. The state, represented by the Ministry of Finance, did retain the authority to direct the lending policies of both banking and non-banking financial institutions (NBFIs). It adopted so-called “window guidance”, which employed informal and indirect means. State financial support to business took another form. As an example, it developed industrial sites in the expensive areas around the capital. Furthermore, the state helped the research and development (R&D) activities of the private sector through tax reductions and funding. Second, part of its policy was to help firms finance their expansion. The state did reform the financial sector to secure fund resources. The policy was carried out through strengthening the domestic stock market. The measures served the objective of allowing investment opportunities for savers and, at the same time, cheapen finance for firms. The Ministry of Finance (MOF) pushed big chaebol into offering their shares and issue bonds locally, instead of seeking finance abroad. The state continued its policy of intervening in the bond market. It did continue to guarantee corporate bonds. This policy was in place from 1972 (Amsden and Euh, 1993, pp. 382-385).

As part of its financial reform, from the early 1970s, the state started to establish non-banking financial institutions (NBFIs) to stop informal lending. The assets of the NBFIs were fast growing from the early 1980s, to the extent that they overtook the assets of commercial banks. Their creation was intended to constitute a source of borrowing for healthy and sound companies.

In spite of the fact that NBFIs were owned by chaebol, the state has retained “substantial” authority over them through its disciplinary measures, such as employing the threat of extensive auditing, restrictions on finance, and declining

expansion requests.. Non-bank financial institutions looked as if they were free of state influence, whereas in reality the latter employed various measures to restrain their activities and prevent them from destabilising the financial system. Hence, the state's financial policies did not change the substance of policy loans. Rather, the state opted to respond to the economy's needs. This was demonstrated by the fact that the regulatory institutions were in place and their mandate was not altered. The financial policies' effectiveness is attributed to the "fact that all regulatory agencies in the financial sector in Korea" are under the umbrella of the MOF" (Amsden and Euh, 1993, pp. 388-9).

The third aspect of economic liberalisation addressed the trade sector. A trade restructuring programme was launched in 1985. The tariff levels on foreign goods were scheduled to fall on average from 18.1% in 1988 to 12.7% in 1989 and by 1999 the average trade weighted tariff was to be brought down to 8.3 per cent. By now, a new law of industrial development regulated the trading of all important industries. The liberalisation measures also included some non-tariff procedures. Simultaneously, the import monitoring regime was removed in 1988, whereas the import recommendation system was nullified in 1989.

The fourth target of liberalisation reform was foreign presence. Reforming international financial exchanges was the last in the list of priorities. In 1981, the exchange rate regime became flexible. A controlled currency movement system was adopted in 1986. Furthermore, the state encouraged "foreign exchange spot" and "futures" markets. The aim was to share the stress of currency fluctuations with the private sector. In 1990, the "market average" mechanism to approximate national currency rate with market rate was introduced. However, the measure was ineffective

because official control of the financial and capital market was still in place (Chu,1995, pp. 215-217).

Despite these measures, Korea maintained its strong involvement in short-term exchanges. It influenced the exchange regime in many ways that counter-balanced the impact of liberalisation. The state was also strictly against international trading of the domestic currency. Capital inflow was still restricted by the late 1980s. The state did not allow Korean firms to borrow money abroad. At the same time, foreign capital inflow was strictly supervised.

Obtaining licences from the Ministry of Finance was obligatory for companies who wanted to issue a “convertible bond” abroad. This is also true for domestic securities houses to work overseas (Amsden and Euh, 1993, p.389). Foreign securities houses were prevented from operating domestically. The state allowed representative offices only for some of them.

The 1980s reform drive granted foreign banks equal treatment to local banks. Foreign banks increased their lending shares in the domestic market from 4% in 1975 to 12.9% in 1984 (Hamilton and Kim, 1993, p.118). Trading in the local stock market was also relaxed for foreigners, albeit cautiously. At the initial stage, foreign investors were allowed indirect investment in the stock exchange through trust funds. However, at the beginning of 1992, foreigners were allowed direct portfolio funds. Various restrictions were imposed, however. A single investor’s share in the fund should not exceed 3 per cent. Furthermore, total foreign ownership was limited to 10 per cent. Moreover, certain industries were strategically important and declared closed to foreigners (Chu, 1995, pp. 223-224). Direct foreign investment (DFI) was also subjected to the restructuring programme. The immediate target was the Foreign

Investment Law. The amendment of the law included the removal of clauses that restricted foreign direct investments and limited their size (Hamilton and Kim, 1993, p.118). In 1985, sectors that were “prohibited or restricted” comprised 339 out of 999 industries. However, in 1989, the number was reduced to 237. By the year 1989, 93% of industries and 58% of services were described as accessible to foreigners. However, throughout the restructuring programme, the state retained its role in directing foreign investments toward “strategic” industries (Chu, 1995, p.225).

Fifth, the economic liberalisation of the state throughout this era included its desire to help globalise its domestic big businesses. The capital export restrictions were relaxed in 1987 and 1988. This measure, however, was a reflection of current account surplus. When the situation was reversed to deficit, the state immediately reinstituted capital outflow controls (Amsden and Euh, 1993). In 1989, the state removed barriers to Koreans investing in overseas real estate. Koreans were also gradually allowed to buy foreign securities from 1989 to 1992. Indeed, in the year 1990, the outflow of capital from Korea exceeded that of inflow. By 1994, Korea had permitted more than \$2.0 billion to be invested abroad directly. The overseas investments were carried out by chaebol. Their investment exceeded three quarters of the total overseas investment. The state assisted Korean companies in their project “through” overseas issuance of corporate bills and convertible bonds. The ceiling on bond issuance overseas was gradually increased to \$990 million in 1993 and reached \$1.2 billion by 1994. Reforming outbound capital measures were not confined to relaxing existing restrictions; the state undertook measures to encourage its chaebol to globalise. And, in this regard, the export finance policy of the Export-Import Bank (EXIM) promoted Korean firms’ investment abroad (Chu, 1995, pp. 218-222). Korea also connected its

official development assistance (ODA) to developing countries, with clauses to enhance Korean private investments in those countries.

The discussion in the current section has elaborated on economic liberalisation. The analysis revealed that economic liberalisation involved various changes in state policies and institutions. It also emphasised reasons that motivated these changes. The most important and relevant issue was, however, the implications of the economic liberalisation on the state's ability to supervise the TNA. The question here is: did these changes jeopardise the state's authority to intervene?

The discussion has revealed that the state's authority and strength have not been undermined. It demonstrated that these changes have been solely initiated by the state and were primarily aimed at corresponding with the new economic realities of the Korean economy. The following points have been highlighted:

- (1) State regulatory and supervisory institutions remained in place.
- (2) State industrial policy was strong and sound. The restructuring changed its role from “developmental to regulatory”.
- (3) The financial policy – the core of industrial policy – was reformed only to assume a “preventive” role rather than a “prohibitive” one.

- (4) Reform measures were limited in scope and were, in some cases, counterbalanced. They were also sometimes “reversed” in line with changes in economic conditions.
- (5) The state often resorted to unofficial channels to push for desired objectives. According to Gills, industrial policy was “in theory largely annulled in public administration reforms of the mid-1980s, but in practice still in existence” through “indirect methods of supervision or intervention referred to as administrative guidance” ( Gills, 1996, p.671).
- (6) The domestic capital pushed for certain policy changes. It also grew in size and economic power. However, it still needed government assistance, especially in its endeavour to globalise. There was no indication that the chaebol penetrated and influenced the state’s bureaucrats.
- (7) Foreign capital benefited from liberalising the domestic market but its activities were still restricted. The changes in the state’s attitude reflect the state’s awareness of the need to upgrade the technological capabilities of its production sector.
- (8) Most important, however, is that the regulatory and supervisory system remained intact.

Hence, the major conclusion is that the TNA is still in place as a basis for economic growth.



Next, the review elaborates on political liberalisation.

### **Political liberalisation:**

The previous section of this chapter discussed the economic liberalisation drive. It started by identifying the causes of both economic and political liberalisation processes. The reasons for globalisation-motivated liberalisation processes were divided into two: domestic and external. The section then elaborated on economic liberalization. Five aspects of the process were identified. The discussion then reflected on the impact of the economic liberalisation on the power relationship of the triple non-alliance, mainly on the ability of the state to preserve its influence over the economy. The section concluded that the state position had not been altered.

This section discusses the political aspect of the liberalisation restructuring process and examines its impact on the TNA. As has been mentioned, Chun inherited a country suffering from a worsening economic situation. He also inherited a tense social and political situation. The regime was facing four major opponents. The first was the student movement, which had been the leading opposition to the ruling regime since the early days of the Republic. The second major opponent was the labour movement. The movement's growing size and strength was a product of the successful development drive and mainly the industrialisation. Labourers suffered from "exclusion and repression" (Hamilton and Kim, 1993, p.116). They were receiving lower wages than their counterparts in other countries (75% of the rate in Taiwan and 80% of that of Hong Kong). They were not allowed to form unions or to assemble. The third major player is big businesses: the chaebol. They are the state's partner in the development drive. However, the sustained economic growth

contributed to their strength. As such, they became major opponents to extensive state intervention. At the same time, they wanted to maintain the state's support. The last (fourth) major challenge to the regime came from political opponents. Their strength and popular support was clearly demonstrated by the December 1978 National Assembly election. The opposition party defeated the ruling party, which was able to control the Assembly only by "direct appointment". Other local forces, namely the middle class, had no major role yet in the process.

These opposition forces were faced by a strong and powerful regime. The regime possessed formidable security forces. However, it lacked legitimacy because of the fact that it was the product of a military coup. This was another strong motivation for the regime to restructure and liberalise.

As mentioned earlier, the country suffered from economic hardship. It was also facing a very tense social condition. The previous regime had been ended by the tragic assassination of Park Chung Hee in 1979 by his most trusted security chief. The assassination revealed a deep friction within the ruling clique.

Aware of all these complications, President Chun opted to start a new chapter. His immediate objective was to stabilise the economy, through the "neo-conservative reforms" described earlier. The regime started with a "milder" image, as compared to the Yushin State. The presidency was limited to one term and the president's authority was drastically reduced. However, the state retained all the other security apparatus. It also kept the various regulations and institutions that enabled the state to repress and control all social classes. The soft picture of the state rapidly reversed. Shortly after assuming power, Chun faced his first major revolt. In May 1980 the whole population of Kwangju city, led by students, rose up against the regime. This popular eruption

was put down at the cost of massacring 200 people (the opposition claim higher figures).

The revolt forced Chun to rethink his position and he realised that the success of his economic reforms required a continuation of past policies of insulating economic policies from the impact of social and political pressures. The success of economic reforms was considered a vital element in calming the opposition to his regime and compensating for its lack of legitimacy.

For this reason, the regime continued its tight control over the entire society, through restricting the freedoms of press, of assembly and of association. Other social movements were put under close state monitoring. The state maintained the security laws inherited from the past, such as the National Security Law, the anti-Communist Law and the Law on (collective) demonstration. The state enacted new disciplinary laws, on purification of political activists and on social protection. Furthermore, the security apparatus were further strengthened. The roles of the Agency for National Security Planning and the National Defense Security Command in the surveillance of political activities were enhanced. The brutality of the regime exceeded that of the Yushin state. In the years between 1980 and 1983, the state abolished all independent unions. The repressive measures resulted in the purging of 500 journalists and 80 university professors. Moreover, 500 political activists were either arrested or prohibited from exercising their political rights. The total number of people arrested during Chun's regime reached 12,039 persons, far exceeding that of the previous regime.

The chaebol were also considered as a "prime target" and were subjected to state measures of close monitoring and "intimidation". The state moved to prevent big

business (chaebol) from penetrating the state's bureaucrats, as this was considered as a cause of corruption and economic crisis. The state avoided an early penetration of state bureaucrats by big businesses. Measures against chaebol included strict credit regulations, strict enforcement of monopoly law and forced mergers.

However, despite this harsh repressive treatment by the state, the opposition front continued to expand and strengthen. An independent labour movement re-emerged. New opposition forces, such as farmers and the urban poor, became politically active. These forces enjoyed the organisational support of students, intellectuals and church activists. A new large opposition front under the name of movement circle was formed. The movement supervised mass street demonstrations against the government.

Opposition protests reached a decisive turning point when, on April 13, 1987, Chun rejected a key opposition demand for direct presidential elections. The move ignited fierce opposition from the umbrella of the headquarters of the national Movement for a Democratic Constitution (Minns, 2001, pp. 1032-1035; Moon and Kim, 1996, pp. 145-150). Massive street demonstrations were organised on a daily basis. In a desperate move, the regime permitted the mass media to report on violent street demonstrators. The objective was to turn the middle class citizen against them. The policy backfired, however, as it exposed police brutality instead (Hamilton and Kim, 1993, p.119). The result was that an increasing number of middle class citizens, including owners of small and medium-sized firms, professional, managerial, and technical workers, joined the ranks of the opposition movement. This new development altered the balance in favour of the opposition front. Now the ruling party had no option but to give in to the opposition demand. And on June 29, 1987,

the then ruling party chairman Roh Tae Woo accepted opposition demands by announcing that the next president would be directly elected (Moon and Kim, 1996, p.150).

The June 29 declaration opened the gates for far-reaching political and social changes. In October, 1987, the constitution was amended to allow direct presidential elections. The ruling party candidate narrowly won the race, with only 36% of the vote. However, the party lost the majority in the April 1988 general election. This was followed by a rapid dismembering of the authoritarian state. Drastic institutional changes followed immediately. The basic press law was abolished, ensuring freedom of press and assembly. Similarly, other laws and regulations were changed or rescinded, such as the labour law and laws restraining collective protests, as well as the special purification law.

#### **Implications of political liberalisation:**

Both economic and political liberalisation drives led to a parallel rapid social stratification in Korean social structure. The configuration of the social structure culminated in the ascendancy of democracy. This political opening marked a triumph for the Korean people and the success of the developmental state, which now produced economic growth followed by political achievement. The central question is that, given these dramatic changes, can the developmental state sustain this success? To address this question it is important to reflect on the impact of these changes – democratisation - on the state's ability to steer the economy in the global era. To put it another way, is the state able to supervise triple non-alliance power relations in the era of democracy and globalisation?

Hence, this section elaborates on the impact of political opening-up on the state's ability to preserve its interventionist role. Several points are highlighted throughout the discussion: first, the role of the newly emerging social groups, mainly the labour movement, is discussed; second, the discussion evaluates the position of domestic capital; third, the role of foreign capital is also investigated; and, finally, the section elaborates on the impact of democracy on the security apparatus of the state.

On the first issue, democracy produced dramatic changes in the social configuration of Korean society. Strict state control over civil society was significantly reduced. This opened the door for people to organise in interest groups. The most powerful of these was the labour movement. It has been shown earlier that the labour movement played an important part in public protest against the state. The political opening up was an opportunity for this movement to consolidate its position. The number of labour unions increased from 2,534 in 1985 to 7,527 in 1992. To consolidate their position further, the independent labour unions formed a grand front – the National Association of Labour Unions. This sprang from the desire to counterbalance the government-related federation of Korean trade unions. Similar moves were adopted by other popular groups in society. Sectors of teachers, farmers, urban poor, intellectuals, all organised independent associations. These moves created a polarisation in society, as they were opposed by counterpart organisations supported by the state. Hence, the impact of this point on the labour movement was neutralised. The stronger role of the labour movement in the political life of the state was impaired by the fact that their strikes and demands for wage rises contributed to a deteriorating economic situation. Estimates have revealed that in 1987 strikes resulted in a loss in production amounting to 277 billion won. This number escalated to 419 billion in 1989. The loss in exports was also sizeable: they reduced to \$1.3 billion in 1989.

Similarly, the labour movement succeeded in increasing the average wage by 19.5% for the period 1987-1992 but this development negatively impacted on the competitiveness of Korean exports (Moon and Kim, 1996, pp. 153-157).

Thus, the polarisation in the labour movement, along with its contribution to the negative performance of the economy, allowed it no real involvement in power relations. Hence, no real challenges to state authority from the labour movement materialised. On the contrary, workers needed state support against the big chaebol.

Next, the discussion elaborates on the position of domestic capital (Chaebol). The growth drive of the developmental state, along with globalisation, contributed to the strengthening of domestic capital. The chaebol constituted a vehicle for continuous economic growth. As has been mentioned earlier, economic growth allowed big domestic capital to grow further to a point at which it constituted a challenge to the state role. In the 1980s they( domestic capitalists) started to articulate concrete demands to reduce the state's intervention in the economy. These requests were based on their feeling of confidence in their ability to perform efficiently. They also cited the need to correspond to the level of maturity of the economy. Their strength was also manifested in their involvement in the political process after the advent of democracy in 1987 (Gills, 1996, p.672). These trends within the domestic capital sector generated a feeling of suspicion on the part of the state. Thus, it took an anti-chaebol stand. The state, as a result, attempted to put in place policies to "arrest" the increasing power of domestic capital. This state attitude was also motivated by the desire to meet calls from the opposition for social justice and a fair distribution of the growth benefits.

As mentioned earlier, Chun tried to redirect finance toward small and medium-size enterprises away from the chaebol. However, the chaebol reacted by acquiring a big share in the financial institutions. Similarly, Roh failed in his endeavour to restrict the activities of the chaebol to three core firms. Again, the chaebol circumvented this measure by transferring money from other groups (Minns, 2001, p.1034). Indeed, the source of their strength was that they constituted a “bastion of national economic growth” (Gills, 1996, p.672). They also realised the vitality of the state for their continuous growth, domestically as well as globally. This balanced formula was not altered by the new realities of democratisation. It reinforced the chaebol’s need for the state to contain the militant labour movement. And the state also needed the role of the chaebol to sustain economic growth in order to gain popular support in the era of democracy. Hence, the balance between the two remained as it used to be.

Next: what were the implications of democracy on the role of foreign capital? It was seen earlier that economic liberalisation produced no significant impact on the role of foreign capital. The relaxation of regulations on foreign capital did not give it a role to the extent that it influenced either domestic capital or state bureaucrats. This was because the economy had grown to a considerable degree. And, as mentioned, economic growth was sound and sustainable. As such, it needed only foreign direct investment for the upgrading of its technological and productive capabilities. Furthermore, the state welcomed the increasing role of foreign capital, to check the increasing ambitions of domestic capital. Hence, the dawning of democracy produced no change in the role of foreign capital in the power relations between state and local capital and other social groups.



Final, and most important, is the impact of political liberalisation on state strength. Democratisation produced a very important factor with regard to the state's authority. It neutralised the security apparatus and institutions. So the expectations were that the state's ability to control society would be greatly diminished and that the state would not be able to maintain the "embedded autonomy" of bureaucrats. Ultimately, the dependency mechanism of triple non-alliance that was responsible for sustained economic growth was altered. However, in spite of the fact that democracy resulted in the state losing the efficiency of its security system as a means of controlling society, it established democratic institutions through which the state could check on the insulation of its bureaucrats from the influence of the chaebol (corruption). Democracy as an accountability mechanism makes it possible to expose any such cases and prevent them. Because the economy had become mature and its growth had been sustained for more than 30 years, the need for such security apparatus was lessened. Previously, the economy had been in its initial take-off. Obviously, at that stage, the need to mobilise resources and insulate the economic sphere from social pressures was great, whereas in the current phase the need was only for sustaining that growth. Most important, however, was the fact that state interventionist institutions were still in place. As described earlier, their role has changed to correspond to the new realities of the economy.

The previous discussion could be summarised in the following conclusions. First, the developmental state, in response to external as well as domestic imperatives, embarked on an economic and political liberalisation drive. Second, this drive did not change the regulatory and supervisory institutional settings of the developmental state, as demonstrated by the existence of all the state's institutions. The changes were confined to regulations and, in most cases, those regulations were counterbalanced

and reversed. Third, the drive produced a fundamental change in the nature of the developmental state. The state was now democratically elected and replaced security apparatus by democratic institutions. Fourth, the final result was that the state, in spite of these changes, was still in command. It still maintained the TNA type of dependency interaction.

The next section reviews the economic outcomes of the liberalisation changes. It validates the conclusion, just mentioned, of the state's effective interference in the economy.

### **Economic outcomes:**

The liberalisation programme produced a remarkable short-term economic success. Inflation was brought down from 28.7% in 1980 to only 2.3% in 1984. Growth rates remained impressively high throughout these years. They were 9.5% in 1983; 7.5% in 1984; 7.0% in 1985; and 12.9% in 1986. The balance of payment account was reversed from the deficit of \$4.4 billion in 1981 to a phenomenal surplus of \$9.9 billion in 1987. Furthermore, unemployment figures were brought down from 4.5% in 1981 to 3.9% in 1986 (Gills, 1996, p.674).

The economic outcomes were negatively impacted on by Roh Tae Woo's policies. Indeed, during his presidency, no major liberalisation measures were undertaken. His economic intervention was confined to changing some policy orientations. The focus was toward reducing business concentration and reforming labour laws and laws related to land acquisition. These objectives, along with contractionary macroeconomic policies, resulted in recession. This prompted Roh to reverse these policies towards supporting businesses and embarking on an expansionary policy. These policies did not work, either, as they generated "overheated" results, with

speculative trends in the stock market and real estate. Roh was forced back to contractionary policies. These hesitant and inconsistent macroeconomic policies were partly to blame for the mixed economic results. On the one hand, the growth rate declined from its peak of 12.9% in 1986 to 4.7% in 1992. The record current account surplus of \$9.9 billion in 1987 reverted to a deficit of \$8.7 billion in 1991. Inflation figures increased from a low of 2.7% in 1986 to a high of 9.3% in 1991, declining again to 6.2% in 1992. Indeed, external factors, such as global recession, combined with protectionist policies in the developed countries, as well as competition from other newly emerging countries (NICs), were said to have contributed to this economic performance as well.

On the other hand, the overall economic condition was still healthy. Hence, "by all accounts the South Korean economy overcame the lingering legacy of Park regime and returned to revitalization" (Moon and Kim, 1996, pp. 153-155).

Beginning from the 1990s, globalisation changes began to accelerate rapidly, impacting on almost every aspect of human life. What is relevant to the current research is the globalisation impact on the state's ability to intervene in the economy: that is, to preserve the TNA, because "in a globalized world economy, it becomes increasingly difficult for the state to subordinate business interests to its own strategic concerns" (Hoogvelt, 2001, p.228).

In a previous chapter, the research outlined two opposing arguments on the state's viability as an active factor in the events within its own territories. One advocated that globalisation severely curtails the state's ability to control economic activities, whereas the second maintained that the state adapts to globalisation pressures in a manner that enables it to intervene efficiently. The current research is very relevant to

this argument. In the next section, the discussion addresses this issue and demonstrates that the state was, indeed, able to adapt and perform its role accordingly.

## **2. The years from the early 1990s to 2000:**

The liberalisation of the 1980s produced two important results. According to the first, the developmental state's institutions, especially its regulatory and supervisory systems, remained in place. The state's responses took the form of changing certain regulations to accommodate external and domestic pressures. Second, the liberalisation-motivated social configuration produced domestic political pressures for change that culminated in the birth of the democratically elected government. This is the first major shift towards a new model of the developmental state. The main conclusion of this chapter - so far - is that the state is still in full command through its preservation of TNA. Consequently, its bureaucrats are still embeddedly autonomous.

The current section seeks to trace the impact of globalisation on the said conclusion. It highlights the relationship between the TNA and the economic crisis of 1997 as well as the TNA's relationship to successful economic recovery. The section covers the years of Kim Young Sam's tenure up to the year 2000. The focus throughout the discussion is on the fate of the developmental state. Before embarking on this review of the globalisation-motivated restructuring process, it is important to highlight two issues. First, like his predecessors, Kim Young Sam began his tenure by adopting anti-chaebol policies. These policies were driven by his election slogans of fighting corruption and breaking up economic concentration. Some of Kim's measures included steps to enforce a "core company system". Also, part of his efforts to contain chaebol expansionary attitudes was to limit the chaebol loans and reduce their bank

share holdings. Chaebol subsidiaries' activities were also targeted by the new administration policies. Family members' holdings of chaebol shares were also restricted. These were part of an anti-corruption drive that also included a move to separate ownership from management. Furthermore, the mutual payment guarantee between chaebol and their subsidiaries was also closely monitored and restricted. The anti-chaebol measures were also extended, to activate the "real name" financial system. They were also intended to arrest speculation on real estates, land and property (Gills, 1996, pp. 678-682). However, the economically strong domestic business groups resisted these state measures. They were politically strengthened by their role of setting up the existing conservative alliance, which brought Kim Young Sam to power. It was reported that leaders of big businesses were said to have played a major role in the formation of the grand coalition of conservative forces (Minns, 2001, p.1036). They also enjoyed sympathy within the bureaucracy and the presidential court (Gills and Gills, 2004, p.173).

Equipped with such ammunition, the chaebol reaction to state-declared measures was swift. They called for an immediate "capital strike". The state was alarmed by this move and its far-reaching consequences for economic growth. It was, therefore, forced to withdraw from the confrontation with domestic capital. This incident was the first manifestation of chaebol strength vis-à-vis the state. The second signal of their strength was their success in removing the labour minister from office. They were also successful in halting steps to amend the labour law. These were early signs of changing relations between domestic capital and the state, which pointed to the possibility of changing the TNA interaction. The second issue in this background is Kim's political move. Immediately after assuming power, Kim Young Sam worked aggressively to consolidate the newly-born democratic process. The first target was

the military, to prevent any possible military intervention. In 1995 two ex-presidents, Chun Doo Hwan and Roh Tae Woo, were put on trial and given the death penalty. Kim's desire was to destroy the prominent position of the two presidents' groups within the army. The next step in Kim's attempt to consolidate his rule was to widen his support base to include opposition forces. Civil society associations also became an integral part of his political agenda (Moon and Kim, 1996, p.159; Minns, 2001, p.1034; Gills, 1996, p.672). Indeed, the most pressing objective of Kim's administration was to steer the economy in intensified globalisation changes.

To enhance its role, the developmental state adopted the objective of “globalize or die”. The Economic Planning Board was requested to devise a plan to guide Korea's efforts to globalise the economy. A list of 12 objectives was introduced. It included, among other things, the following:

- Globalisation of the domestic financial industries and capital trade and the enlargement of foreign direct investment.
- Raising the competitiveness of small and medium - sized firms.
- Formulation of strategies for firms' overseas expansion.

Next, the administration began to put its house in order in preparation for its globalisation programme. In this regard, a special Economic Globalisation Planning Agency was established. At the same time, a new inter-ministerial committee was formed and entrusted to organise activities of state institutions and ministries related to the globalisation objective. These steps were followed by a major cabinet reshuffle in 1994. The change involved merging the Economic Planning Board, Ministry of Planning and Ministry of Finance in one grand Ministry of Finance and Industry (MOFE) (Gills, 1996, pp.670-680).

Having completed the institutional restructuring, the state embarked on a rapid sweeping liberalisation move. The targets were both the financial sector and the industrial sector.

### **Financial liberalisation:**

The financial liberalisation programme was outlined in the five-year plan. It envisaged removing restrictions on interest rates, ending “policy-loans”. It also contemplated relaxing control on bank management and removing entry barriers to the financial sector. Most important, however, was capital account opening. Detailed measures of financial liberalisation are contained in Table (33).

These liberalisation moves were characterised by three factors. First, they corresponded to the success of economic developments as reflected in a building-up of trade surpluses. Second, they were a response to pressures from the chaebol - that achieved good ratings - to open the economy, to make it possible to continue their expansion. The chaebol considered government intervention in regulating foreign exchange transactions as constraining their activities. Third, the financial liberalisation was motivated by global forces supported by the developed world, especially the United States.

The liberalisation drive of the financial sectors led to a deregulation of commercial papers. It opened the gate for huge short-term financing for Korean companies. Furthermore, the financially weak finance companies were assisted to stay in business instead of being driven out.

**Table (33): Major financial liberalisation measures in Korea during the 1990s**

**1) Interest rates deregulation (in four stages: 1991 to July 1997)**

- By 1997, all lending and borrowing rates, except demand deposit rates, were liberalised.

**2) More managerial autonomy for the banks and lower entry barriers to financial activities.**

- Freedom for banks to increase capital, to establish branches and to determine dividend payments (1994).
- Enlargement of business scope for financial institutions (1993).  
Continuous expansion of the securities business of deposit money banks (1990, 1993, 1994, 1995).  
Freedom for banks and life insurance companies to sell government and public bonds over-permission for securities companies to handle foreign exchange business (1995).  
Permission for securities companies to handle foreign exchange business (1995).
- Abolition of the limits on maximum maturities for loans and deposits of banks (1996).

**3) Foreign exchange liberalisation**

- Adoption of the Market-Average Foreign Exchange Rate System (1990)
- Easing of the requirement for documentation proving 'real' (i.e., non-financial) demand in foreign exchange transactions (1991).
- Setting up of foreign currency call markets.
- Revision of the Foreign Exchange Management Act (1991).  
Changing the basis for regulation from a positive system to a negative system.
- Introduction of 'free Won' accounts for non-residents (1993).
- Allowance of partial Won settlements for the export or import of visible items (1993).
- Foreign Exchange Reform Plan (1994).  
A detailed schedule for the reform of the foreign exchange market structure.
- A very significant relaxation of the Foreign Exchange Concentration System (1995).



#### **4) Capital market opening**

- Foreign investors are allowed to invest directly in Korean stock markets with ownership ceilings (1992).
- Foreigners are allowed to purchase government and public bonds issued at international interest rates (1994), equity-linked bonds issued by small and medium-sized firms (1994), non-guaranteed long-term bonds issued by small and medium-sized firms (Jan.1997) and non-guaranteed convertible bonds issued by large companies (Jan.1997).
- Residents are allowed to invest in overseas securities via beneficiary certificates (1993).
- Abolition of the ceiling on the domestic institutional investors' overseas portfolio investment (1995).
- Foreign commercial loans are allowed without government approval in so far as they meet the guideline established in May 1995.
- Private companies engaged in major infrastructure projects are allowed to borrow overseas to pay for domestic construction cost (Jan.1997).
- Liberalisation of borrowings related to foreign direct investments (Jan.1997).

#### **5) Policy Loans and credit control**

- A planned termination of all policy loans by 1997 is announced (1993).  
A step-wise reduction in policy loans to specific sectors (e.g., export industries and small and medium-sized firms).
- Simplifying and slimming down the controls on the share of a bank's loans to major conglomerates in its total loans.

Source: Ha-Joon Chang, Hang –Jae Park and Chul Gyue Too: Interpreting the Korean Crisis: Financial Liberalization, Industrial Policy and Corporate Governance. Cambridge Journal of Economics 1998, 22, 735-746.

As an example, 24 troubled financial companies were transformed into commercial banks (Haggard and Mo, 2000, pp. 204-207). Nine were licensed in 1994 and 15 in July 1996, whereas only 6 had existed before 1993 (Chang, Park and Yoo, 1998, p.739). The fact that 15 of the commercial banks that closed in 1998 were among the 16 newly established banks reveals the extent of the earlier, ill-advised move.

The liberalisation measures allowed the chaebol to control an increasing number of the non-bank financial institutions (NBFIs). As such, they did not pay due consideration in their loan policies to their parent companies. In fact “mutual guarantees were a secret weapon of Korea’s Chaebol enabling them to expand rapidly and diversify with minimal collateral”. However, as will be seen later, “in the hands of weaker and inexperienced players they became a trap that could ensnare the entire group when one of the marginal affiliates stumbled” (Mathew, 1998, p.750).

As a result, “inexperienced” commercial banks’ share in the market increased. Their total foreign debt stock rose by around 60% during 1994-6, from \$ 7.27 billion to \$ 18.62 billion. What was serious, however, was the fact that the state was “unaware” of the “mismatch” in the maturity structure; on the eve of the 1997 crisis, 64% of commercial banks’ \$20 billion total foreign borrowings were short-term, whereas they had lent 85% of them as long-term. The relaxation of financial liberalisation and the proliferation of non-bank financial institutions led to mounting non-performing loans. Their size had increased from 4.1% of total loans at the end of 1996 to 6.8% by September 1997. However, it was not as high as that of 7.5% in 1990 and 7% in 1993 (Chang, 1998, p.1556). Financial opening-up resulted in high leveraged levels for the top 30 Korean companies, where debt exceeded equity by almost four times. These levels encouraged rapid Korean economic growth throughout the 1980s and 1990s.

However, the problem was that the current liberalisation allowed the Korean chaebol to “abuse” this system.

The impact of financial liberalisation on Korean debt was remarkable. The size of foreign debt escalated from \$44 billion in 1993 to \$120 billion in 1997. The average annual increase was 33.6% for the years from 1994 to 1996. However, the level was not unsustainable, as it constituted 22% of the gross national product (GNP). It was still far below the World Bank level of 48%. Furthermore, debt service ratio reached 5.4% in 1995 and 5.8% in 1996, which, again, was below the 18% level of the World Bank. However, there was a problem with the maturity structure of the foreign loans. The short-term debt in the total debt had increased from the high level of 42.7% in 1993 to 58.2% by the end of 1996. However, in 1997, it did come down slightly, to reach 58%, an indication that the short-term maturity of foreign loans on the eve of the crisis was better than that of 1996.

Thus, reviewing the extent and the results of financial liberalisation measures reveals that they led to an increase in the size of companies’ borrowing, either domestically or from abroad. However, these levels were not unprecedented. What distinguishes this era’s borrowing figures was that they were undertaken in disregard of the financial soundness of the borrowers, as chaebol were able to control “inexperienced” commercial banks.

Next, it will be seen that the demise of the industrial policy allowed domestic capital to abuse the opening drive and obtain more loans that proved unsustainable and led to the financial crisis. It is obvious that financial liberalisation allowed both domestic and foreign capital to strengthen their role at the expense of state bureaucrats. The latter were weakened by the abolition of their supervisory institutions.

The financial liberalisation ended exchange rate management. Accordingly, domestic currency appreciated, resulting in a current account deficit of a record \$23.7 billion in November 1997. And, again, the record deficit of 1996 was still below that of 9% of GNP in 1980. This indicates that the economy, until now, is still healthy (Chang, 1998, pp. 1556-1558).

### **Industrial policy liberalization:**

The new administration of Kim Young Sam embarked on a parallel aggressive industrial opening-up. First, the state abandoned the five-year planning exercise. Second, it undertook major reorganisation measures: the Ministry of Planning, the Economic Planning Board (EPB) and the Ministry of Finance were merged into a super-ministry, the Ministry of Finance and Economy (MOFE). This bold step marked the end of “indicative planning”. Third, and most important, was the acceleration of the abolition of selective industrial protection that was envisaged in the Industrial Development Law (IDL) (Chang, Park and Yoo, 1998, p.740).

The end result of these measures, combined with the financial liberalisation, declared the demise of the industrial policy. What is marked in this drive was that it created a supervisory and regulatory vacuum. As such, the big conglomerates’ activities were not properly monitored. This prompted the claim that “the dismantling of the developmental state was effectively finished by...1995” (Crotty and Lee, 2002, p.668).

Hence, the abolition of both regulatory and supervisory systems represented the second major shift away from the developmental model of the state. This shift was influenced by globalisation.

**Impacts on the TNA:**

It has just been seen that the globalisation drive significantly weakened state strength in supervising the activities of big domestic capital. It also resulted in the increasing role of foreign capital in the domestic economy. Consequently, the state influence of TNA interaction was greatly eroded. State strength erosion was manifested in a series of bankruptcies that involved several Korean chaebol. From 1990 to 1996, only three of the 30 biggest chaebol became bankrupt. They were Han Yang, Yoo Won and Woo Sung. However, in 1997, six big chaebol went out of business. They were Kia, Hanbo, Sammi, Haitai, Jinro and Halla. The latter six heavily relied on the non-banking financial institutions, such as the Halla group, which borrowed 6.5 trillion Won, 50 per cent of which was from commercial banks. This indicates the strong relationship between the aggressive liberalisation process and the rise in bankruptcies. The Hanbo failure was the first major case that led to the final downfall of the financial system. Hanbo, which was ranked as the 14<sup>th</sup> largest conglomerate in Korea, began to fold in January 1997. The scandal surrounding the Hanbo failure revealed deep-rooted corruption. It clearly showed that by this time domestic capital had succeeded in penetrating the state bureaucracy. This is a consequence of the regulatory vacuum. This indicated a major shift in the form of TNA interaction in favour of big chaebol and at the expense of the state's influence.

It was revealed that Hanbo's founder had secured debts amounting to \$5.85 billion through bribing bank officials. The scandal reached the presidential office. It also involved the conviction of the president's son. The company, with a questionable record, was allowed into the steel industry at the same time as the government had declined Hyundai's request. The Hanbo case was considered as the first major shock to foreign confidence in the Korean economy. It raised questions about the soundness

of the Korean banking system. The second case that revealed the imbalance in the TNA was granting Samsung a licence to enter the car industry in 1993. The company located a factory in Pusan, the home base of President Kim Young Sam. The viability of this project was questionable. Samsung in general was “talked about as being close to the regime” (Chang, Park and Yoo, 1998, p.741).

Bankruptcy cases continued to unfold. After the Hanbo failure, Sammi followed in March and, next, Jinro was also declared bankrupt in April 1997. There then came the major failure case of Kia, which started on June 23 of the same year. The development of the Kia case led to a major financial crisis. The state’s handling of the case was the main cause of financial sector difficulties which were realised at the beginning of July 1997. It is worthwhile mentioning that state-favoured chaebol (Samsung) sought to acquire Kia. After the Hanbo case, the banking system had already received “mixed signals” about the government’s attitude toward chaebol in difficulties.

As a result of the bankruptcy cases and the corruption involved, the state was greatly weakened. It lost its ability to monitor the economy, as well as its ability to take decisive action with regard to the looming financial crisis. The impact of scandals spread to the political field. Friction developed within the ruling party, as the president declined to participate in the selection of his successor. Hence, “the political background to policy making in this period includes a severely weakened president and a divided ruling party headed by a candidate desperately trying to differentiate himself from the incumbent” (Haggard and Mo, 2000, p.211). Furthermore, the state was further weakened, as it was stripped of its supervisory as well as its disciplinary institutions.

The Kia case exposed this situation to foreign investors and led to a series of developments that culminated in the crash of 1997. The state wavered in taking any firm decision. Indeed, as a result of the previous bankruptcies, especially that of Hanbo, several commercial banks “were technically insolvent”. After the breakdown of Sammi and Jinro, a group of commercial and state banks announced an anti-bankruptcy agreement, to save any of the Top 50 chaebol in distress. The move backfired, however, as it questioned the credibility of the banks involved. On June 23, Kia appealed for government assistance to postpone the payment of due loans. By July 1997, the Korean financial sector had come under stress. Banks delayed their decision on the fate of the company until September 29. The government announced that it would inject \$8 billion into the banking system. However, it was still indecisive in determining the fate of Kia, whose management tried to “blackmail” the weak government into providing a bailout package. On September 29, an ultimatum by creditors was issued to force Kia payment. After almost one month, on October 22, the state decided to intervene to settle the Kia case. It was only one day before the Hong Kong stock crash (Chang, Park and Yoo, 1998, p.743; Haggard and Moo, 2000, pp. 210-212; Mathew, 1998, p.751).

### **The crisis of 1997:**

As described earlier, the Korean financial sector was left in “severe” turbulence on the eve of the Hong Kong stock crisis. Events continued to unfold rapidly. The local currency continued to depreciate quickly, at more than the 2.5% of daily limits. This prompted the government to stop domestic currency trading. In a desperate move to attract foreign investors and stop their massive exit, the government increased foreign ownership in Korean stock markets. Credit rating agencies began to downgrade Korean banks and foreign banks refused to extend their short-term loans to Korean

financial institutions. The issue was further complicated by reports that the Korean Central Bank had run out of foreign reserves.

Korean officials sought the help of the IMF but they failed to obtain legislative approval for the reform programme. Markets were further negatively affected as a result. Furthermore, friction between the president and his economic team led to the dismissal of the Minister of Finance. The market reacted immediately; the Bank of Korea lost \$ 1.6 billion on November 19 and another \$ 1.1 billion on 20. The government had no other option but to declare that it was resorting to the IMF for intervention (Haggard and Moo, 2000, pp. 213-214).

The current discussion has revealed that the globalisation-influenced reform programme stripped the state of its supervisory and regulatory capacity. At the same time, it promoted the role and strength of other factors in the dependency mechanism. Thus, the state was greatly weakened and not able to influence the triple non-alliance interaction (TNA). The TNA balance was lost, making it possible for domestic chaebol to penetrate the state's bureaucrats. The penetration of the state bureaucracy was clearly demonstrated by the spread of scandals and corruption. A series of corporate bankruptcies and associated bribes shook foreign confidence in the economy. The events unfolded dramatically, to culminate in the financial crash of 1997.

The advent of the financial crisis declared the demise of the developmental state model, whereas the IMF agreement of December 1997 represented a birth certificate for the new global developmental state model (GD).

The next section discusses the global developmental state's efforts to rebuild the devastated economy.



## **The Global Developmental State (GD):**

The review elaborated on the globalisation drive of the newly-born, democratically-based developmental state. It explained the extent of globalisation-motivated measures and their impact on the components of the TNA. The elaboration revealed that the changes altered the balance of dependency agents. The state was stripped of its leading influence. It lost its supervisory, as well as disciplinary, capabilities. In contrast to this, domestic capital (chaebol) enlarged its role in the economy and expanded its power. It was able to penetrate the state's bureaucrats. Similarly, the role of foreign capital (foreign debt) increased significantly, as demonstrated by heavy dependence on foreign debt. Thus, the triple non-alliance was reversed. The state was no more in control of the economy. The review further explained the consequences of the loss of the TNA. It revealed that the new interaction led to various bankruptcy cases. Several chaebols, beginning from the second half of 1996, went out of business. The bankruptcies uncovered widespread corruption cases that involved bureaucrats and politicians. Both bankruptcies and scandals shook foreign confidence in the health of the financial system. The response was that they rushed for the exit. Given its heavy involvement in the economy, the mass exit of foreign capital led to financial crisis, as it coincided with the stock crisis in other Asian countries, especially Hong Kong. The globalisation drive resulted in the old developmental state giving way to a new, globalisation-influenced developmental state.

Thus, the previous discussion has demonstrated the birth of the global developmental state (GD). As indicated earlier, one of the proposed functions of the said state is to sustain economic growth in the globalisation era. However, the ensuing economic crisis imposed an immediate objective on the GD state, that of addressing this crisis

and putting the Korean economy back on the growth path. The earlier function lies outside the scope of this research, as it concerns the performance of the GD state after the year 2000. Thus, the current section deals with the GD state's efforts to address the economic crisis. The discussion emphasises three aspects. First, it stipulates the GD state's main features. Second, it elaborates on GD measures to deal with the immediate and pressing issues of the economic crisis. And, last, the discussion evaluates the performance of these reform measures.

The previous elaboration on GD state formation may be summarised in the following:

- 1) The GD state is a democratically elected one.
- 2) The GD state supervises an already existing economic growth process and seeks to sustain it in a globalised economy.
- 3) The GD state still utilises the TNA interaction as a mechanism to achieve the said objective.
- 4) The TNA interaction in the case of the GD state is enforced by democratic institutions and by manipulation of its association with external institutions and agencies, instead of by the security apparatus.
- 5) The GD state works to take advantage of globalisation changes, in order to globalise its corporations, giving rise to the Southern Multinational Corporations (SMNC).

Consequently, the global developmental state could be identified as a democratically elected state that retains a transformatory project and seeks to sustain the already established economic development in a globalised world, utilising the triple non-alliance interaction, whereas the latter is now preserved through democratically-based

institutions and through manipulation of association with international institutions and agencies.

Next, the section reviews GD state policies to deal with the severe economic crisis. It has been indicated that the cause of the 1997 financial crisis was the state's loss of its control over the TNA interaction. The hasty measures of liberalisation led to a regulatory vacuum. They also led to an increase in the power and strength of both domestic capital and foreign capital. This enabled the chaebol to penetrate the state's bureaucrats. This reality was demonstrated in the spread of bankruptcy cases. Therefore, the remedy was to reinstitute the triple interaction to its non-alliance form. The TNA was reinstituted through three steps: financial reform, labour reform and industrial policy reform.

### **Financial reform:**

The immediate objective of the GD state was to negate “the damage inflicted by the dismantling of previous regulatory controls” and “the inadequacy of supervisory structures” (Mathew, 1998, p.753). One of the major steps of financial reform was to regain control over the banking system. Throughout 2001, the government poured in an amount which exceeded 150 trillion won. The size of funds injected constituted 29% of GDP. This huge injection of money “gave the government control over almost all important Korean banks”. Hence, the state now “has immense power over the debt-ridden chaebol” (Crotty and Lee, 2002. p.672).

Furthermore, various steps to reassert the state’s authority were adopted. First, the state moved rapidly to rebuild supervisory and regulatory financial agencies. To emphasise its seriousness, the state created a new powerful office for such a purpose, to be attached to the Prime Minister’s Office. For an interim period, the state

established a Financial Services Commission. It started working from April 1998. Its mandate was to monitor and direct the restructuring of domestic chaebol. The commission revealed its power when in July 1998 it closed five commercial banks. It demanded that another seven banks carry out major reforms in order for them to stay in business. Furthermore, state strength was also consolidated by the establishment of three powerful agencies. They are: the Financial Supervisory Board (FSB), the Financial Supervisory Agency (FSA) and Securities of Futures Trade Commission.

Another major reforming measure was the separation of the Bank of Korea from the Ministry of Finance and Economics. Both were relieved of supervising the financial institutions. The objective was to reduce the chances of bribery. Another step to enhance the state's intervention in the financial sector was the creation of the Korea Asset Management Corporation (KAMC). The corporation was entrusted with addressing non-performing loans. The government targeted badly-performing financial institutions, mainly commercial banks. It closed 10 commercial banks in February 1998. It also created a "bridging bank" to minimise the negative impacts on their borrowers. In July of the same year, five more banks were ordered to close. The rest of the banks were given a chance to restructure by February of the following year. Furthermore, by now, commercial banks and non-bank financial institutions (NBFIs), were to adhere to the Bank of International Settlements (BIS) procedures. One other step to reform was to modernise the banking system through attracting more foreign banks to operate domestically (Mathew, 1998, pp. 753-754).

### **Labour reform:**

The labour movement became another target in the state's endeavour to reestablish its influence over the economy. The labour movement was - because of the crisis - in a

very bad position. Unemployment was rising rapidly, giving the state a good opportunity to rearrange labour regulations. In February, the government replaced the labour law and put in place a new law that provided labourers with protection and security. The new law, however, allowed Korean companies to fire workers in accordance with their managerial needs (Crotty and Lee, 2002, pp. 671-672).

### **Industrial reform:**

The Korean financial crisis and the ensuing IMF agreement created an excellent opportunity for the new state to achieve a long-overdue objective, that of restraining domestic capital. Restraining chaebol activities was a pre-requisite for the state in re-establishing the TNA. Encouraged by IMF intervention and the financially bad position of the chaebol, the state worked through the newly-established supervisory agencies to adopt steps to discipline the activities of the chaebol. Even before officially assuming power (December 18, 1997), the president-elect summoned leaders of five big businesses and sought their commitment to five principles:

- producing consolidated balance sheets, prepared according to international accounting standards;
  - terminating the cross-divisional payment guarantee system for raising loans;
  - requiring affiliates to perform profitably and merging or divesting those that are not profitable;
  - promoting partnership between the chaebol and small and medium-sized enterprises;
  - placing their personal wealth into their companies to improve their equity base
- (Mathew, 1998, p.755).

These requirements were adopted by the rest of the top 30 conglomerates. The government retained a powerful means to enforce such demands, through controlling the banking system as well as its newly created supervisory institutions.

Thus, the new Korean GD state has “no intention of replacing ... [the] highly interventionist model of development ... the new Korean model will have at its centre an economy which is much more open and transparent; it will be closely supervised and regulated” (Mathew, 1998, p.755). Efforts of the reform drive of the GD state would allow Korean chaebol to become coherent “industrial groups”. As such, the Korean economy would enjoy “great responsive and adaptive capacities”. The GD state would first “rely on accounting and financial transparency” to maintain the “embedded autonomy” of its bureaucrats. Second, the GD state authority would also be supported “by a greater reliance on the institutions of democracy in its supervision and its guidance”. Third, the global developmental state contemplated reforms at the political level. Among them were enhancing the authority of the prime minister and a gradual shift towards increasing the parliamentary role and decreasing the president’s authority. It also included the establishment of new institutions, such as the office for Planning and Budget, encouraging trade unions to participate in the political process (Mathew, 1998, pp. 755-58).

### **Foreign capital:**

The GD state attitude toward foreign capital was influenced, first, by the desire to globalise the economy; second, by the fact that the Korean economy was strong and was able to weather the financial crisis successfully, as well as by the fact that Korean domestic capital had also secured a solid and prominent role; third, the GD state was able to refill the supervisory vacuum created by deregulation measures, by a newly

established supervisory system. Accordingly, inducing a huge amount of foreign capital was absolutely vital to sustain economic growth in the global era. The perception was that the presence of foreign investment “could solve Korea’s foreign exchange problem”. It would also “infuse Korean industry with modern managerial methods”. And, finally, it would “provide the kind of vigorous competition needed to break chaebol stronghold on the Korean economy” (Crotty and Lee, 2002, p.675).

Consequently, the inflow of foreign investment amounted to \$8 bn in 1997. It reached \$62 bn in foreign portfolio and direct investment from 1998 to 2000. FDI totalled \$ 31 bn in 1999 and 2000, 25% greater than all inward FDI from 1962 to 1997. However, net portfolio annual inflow ranged between one and five bn between 1992 and 1999; it reached almost \$ 12 bn in 2000 (Crotty and Lee, 2002, pp. 675-676).

To sum up, the discussion has revealed that the liberalisation drive carried out with the objective of globalising the Korean economy resulted in the rebirth of the developmental state. Indeed, the old developmental state model started to wane from the late 1980s with the advent of a democratically-elected government. As a result of global restructuring, the Korean social structure configured rapidly, producing a severe financial crisis. The crisis was managed by the intervention of the IMF. Indeed, the IMF agreement represented a birth certificate for a new form of development state that corresponds to global realities. The discussion revealed that the new global developmental state moved decisively to reassert its lost influence in intervening in the economy. It was successful in re-establishing the triple non-alliance of dependency agents. The GD state was supported by the external authority of the IMF. It first re-instituted the supervisory system. It then moved quickly to assert its authority over the domestic chaebol. They gave in easily to state measures, owing to

the fact that they had been badly weakened by the financial crisis. The state intervened heavily in the financial sector. The state also worked to regain the confidence of foreign capital. Furthermore, the discussion also demonstrated state success in liberalising the labour market to conform to the new reality of a globalised economy.

The last part of this section evaluates the GD state's measures in steering the economy out of its economic crisis.

### **GD state performance:**

We have seen that the global developmental state embarked on a swift restructuring programme, through which it reinstituted its influence over the TNA interaction. Having regained its strength, the GD state initiated a stabilisation programme. The stabilisation of monetary policy led to a contractionary impact that accentuated the “credited crunch”. The degree of contraction was more than expected, even by the IMF officials. However, by mid - 1998, the Korean economy was able to switch back to expansionary policies. Likewise, fiscal policy started to tighten after the crisis. Later on, however, to avoid the negative consequences of severe economic slowdown, the fiscal policy was expanded again. The global developmental state was, thus, able to strike “the right balance between accommodative macro-economic policies and structural reform” (Lee and Rhee, 2002, p.557).

The current section elaborates on the economic achievements of both restructuring programmes and macroeconomic policies.

Both Table (34) and Figure 1 reveal impressive GDP growth rates. The data reveal that the growth rate of GDP was 7% before the crisis.



**Table (34): Macroeconomic Adjustment in Korea**

	1996	1997	1998					1999				
	AVG	AVG	1Q	2Q	3Q	4Q	AVG	1Q	2Q	3Q	4Q	AVG
<b>Growth</b>	6.8	5.0	-4.6	-8.0	-8.1	-5.9	-6.7	5.4	10.8	12.8	13.0	10.7
P. Cons	7.2	3.2	-11.6	-13.0	-12.3	-8.9	-11.4	6.7	10.3	12.1	12.1	10.3
Invest	7.1	-3.2	-19.9	-23.9	-22.4	-18.3	-21.2	-4.2	4.9	7.0	7.6	4.1
G. Cons	8.2	1.5	0.8	-1.0	-0.2	-1.1	-0.4	-2.0	-1.7	0.1	1.8	-0.6
Export	11.2	21.4	25.8	13.6	8.5	7.6	13.2	9.2	14.6	20.0	21.0	16.3
Import	14.2	3.2	-27.3	-25.7	-26.1	-10.0	-22.4	27.3	28.3	32.3	28.0	28.9
<b>Agriculture</b>	3.3	4.6	-4.0	-1.6	-7.6	-8.5	-6.6	9.3	4.7	6.7	2.7	8.5
<b>Manufacturing</b>	6.8	6.6	-5.2	-10.7	-9.5	-4.2	-7.4	10.7	21.5	27.3	27.2	21.8
<b>Service</b>	7.8	5.4	-6.1	-9.0	-8.5	-5.2	-7.2	7.6	11.6	13.0	14.4	11.7
<b>Construction</b>	6.9	1.3	-2.9	-6.7	-9.1	-13.4	-8.6	-14.2	-7.1	-9.5	-10.5	-10.1
<b>CPI inflation</b>	4.9	4.5	8.9	8.2	7.0	6.0	7.5	0.7	0.6	0.7	1.3	0.8
<b>CA/GDP</b>	-4.4	-1.7	16.3	14.4	12.0	9.2	12.7	6.8	6.5	6.6	4.9	6.1
<b>UE</b>	2.0	2.6	5.6	6.8	7.4	7.4	6.8	8.4	6.6	5.6	4.6	6.3

**Note:**

**Growth:** growth rate of real GDP, per cent change over the same period in previous year.

**P. Cons:** growth rate of real private consumption, per cent change over the same period in previous year,

**Invest:** growth rate of real gross fixed capital formation, per cent change over the same period in previous year,

**G. Cons:** growth rate of real government consumption, per cent change over the same period in previous year.

**Import:** growth rate of real imports, per cent change over the same period in previous year.

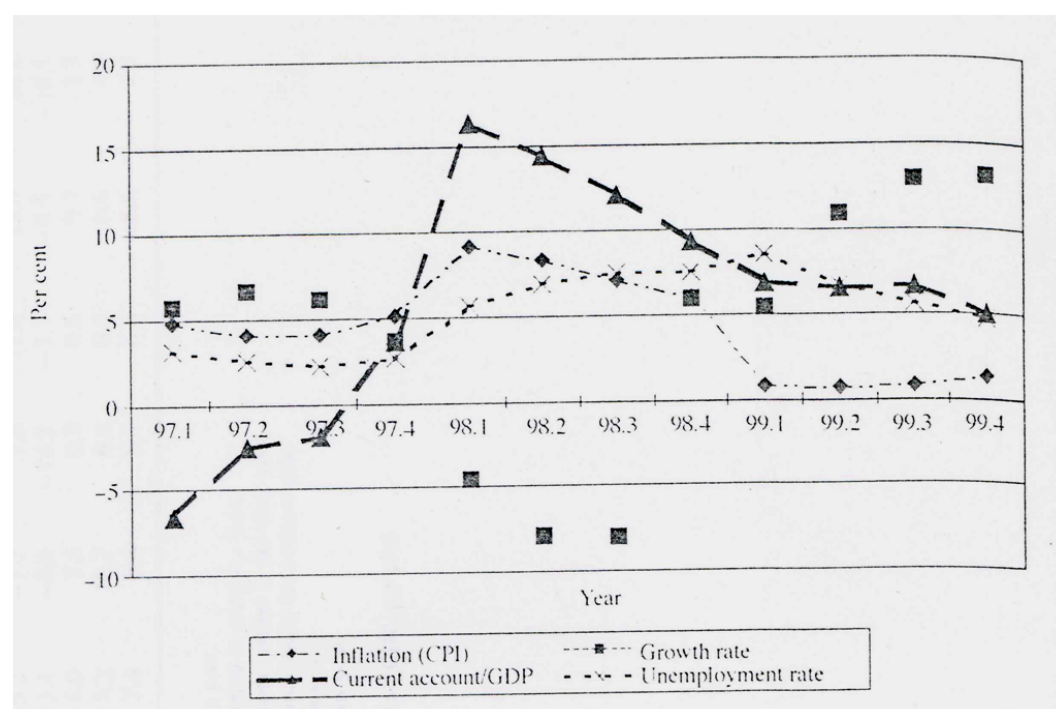
**CPI:** Consumer price index.

**CA/GDP:** current account balance over (in case of quarterly data, a quarter of) annual GDP, per cent.

**UE:** unemployment rate, period average unless stated.

Source: Bank of Korea and Korea Development Institute. Cited in Lee and Rhee, 2002. P551.

**Figure 1. Macroeconomic Adjustment in Korea**



Source: Jong-Wha Lee and Chang Yong Rhee: Macroeconomic Impacts of the Korean Financial Crisis: Comparison with the cross-country patterns. P.552, World Economy, vol.25, No.4, April 2002.

However, by 1998, the growth rate had dropped drastically to -6.7%. Nevertheless, at the beginning of the second half of the year 1998, the GDP growth rate bounced back significantly. Real GDP growth rose by 10.7%. It exceeded even the pre-crisis level of 7%.

Figures on inflation and current account balance demonstrate similar success. Table (34) shows that the CPI inflation rate was 4.5 per cent in 1997. It increased to 10 per cent in the first half of 1998. However, the inflation rate declined drastically in the second half to a percentage below the pre-crisis level. The current account balance revealed a similar trend. It was in deficit of -1.7% of GDP in 1997. However, by 1998

it recorded a surplus of 12.7% and by 1999 it had declined to 6.1% of GDP. Figures on unemployment and real wages exhibited moderate success. Figure 1 indicates that unemployment data increased significantly from 2.6% in 1997 to 8.8 per cent in February, 1998. It, however, decreased to 6.3% on average in 1999, still a high figure but consistent with other countries who faced a similar crisis. Table (35) shows changes in real wages. It demonstrates that the nominal real wage growth rate was about 7 per cent in the first quarter of 1997. It decreased drastically after the crisis. By 1998, the decline in the real wage rate was a severe 10 per cent. However, as a result of GDP growth recovery, both nominal and real wage rates improved significantly from 1999.

**Table (35). Changes in Real Wage in Korea**

	1997					1998					1999				
	1/4	2/4	3/4	4/4	Avg	1/4	2/4	3/4	4/4	Avg	1/4	2/4	3/4	4/4	Avg
Nominal Wage (All industries)	11.6	9.7	6.8	0.9	7.0	0.1	-1.2	-8.1	-0.4	-2.5	5.6	10.6	15.6	16.1	12.1
Inflation (CPI)	4.7	4.0	4.0	5.1	4.5	8.9	8.2	7.0	6.0	7.5	0.7	0.6	0.7	1.3	0.8
Real Wage Growth	6.9	5.7	2.8	-4.2	2.5	-8.8	-9.4	-15.1	-6.4	-10.0	4.9	10.0	14.8	14.8	11.3

**Note:**

Percentage change compared with the same period in the previous year.

*Source: Korea Development Institute, Monthly Economic Outlook. Cited in Lee and Rhee, 2002, p555.*

Thus, the above-mentioned data clearly demonstrate that the global developmental state, through its close supervision of the TNA interaction of dependency agents, was able to put the economy back on the track of continuous sustainable growth. The extent of the success was hailed by "supporters of neo-liberalism as a new miracle" (Lee and Rhee, 2002, pp. 541, 550, 556, 557, 669).

In conclusion, the current chapter confirmed that the TNA is still a relevant model to account for Korea's economic growth in the globalisation era. The discussion clearly demonstrated that the absence of the TNA was the cause of the crisis and that the recovery was achieved through re-establishing it. Another major conclusion is that the global developmental state (GD) is the new form of state that supervises the triple non-alliance. The GD state was a product of the old developmental state's adaptation to globalisation imperatives. The essence of its intervention has also changed, from authoritarian to democratic. The old developmental state based its strength of intervention and preserving the TNA on an authoritarian rule. However, the global developmental state bases its intervention on democratically-elected institutions. The security apparatus has thus been replaced by democratic accountability. State influence over the TNA proceedings has also been enhanced by international institutions, such as the IMF. Furthermore, influence over domestic capital has also been augmented by international agencies, which applied principles of transparency and strict adherence to international regulatory standards. The chances of altering the TNA through corruption and bribes were thus greatly reduced.

## Chapter Ten

### Conclusion:

The current research has accomplished its objective of identifying the underlying causes of Korea's economic growth pattern. It substantiated the proposition that Korea's economic success is explained by the triple non-alliance dependency model (TNA). The triple non-alliance is identified as the form of triple interaction according to which the developmental state prevents an alliance of domestic entrepreneurs and foreign capital from penetrating its bureaucrats. The research showed that, while both Korea and Brazil followed similar a triple interaction approach, only Korea was able to sustain a triple non-alliance interaction, whereas in the case of Brazil the triple alliance was the dominant form. Through TNA the state in Korea secured an embedded autonomy of its bureaucrats. State bureaucrats in Korea were empowered by a strong regulatory and supervisory system. Through this system the state oversaw successful dependent economic development. The study also demonstrated that the economic crisis of the late 1990s was attributable to the loss of the triple non-alliance interaction. It showed that globalisation forces promoted the state to dismantle the regulatory agencies. As a result, state bureaucrats fell under the influence of the private sector. This case was demonstrated in the spread of various corruption incidences that culminated in a fully-fledged economic crisis. The study also showed that economic recovery was achieved through regaining the lost TNA and re-empowering the regulatory agencies.

The research followed the critical naturalist approach as a method to approach its objective. It began by situating the current work within the development literature. It

discussed various critiques directed at the dependency branch of development research. It challenged these critiques and advanced the dependent development theory as a viable theoretical method to host development research. The work of the next chapter, Three, consolidated a corresponding dependency model. It traced the Cardosoian devised triple interaction model. In its final phase the model advocates a triple interaction of the state's bureaucrats, domestic capital and foreign capital. It takes into consideration the emerging roles of other social sectors, such as the labour force, the student movement and other civil society associations. The contributions of the new forces were greatly enhanced by globalisation. The fourth chapter discussed the viability of the research theoretical framework in the face of globalisation changes. It has been demonstrated that globalisation did not alter the basic features of the explanatory framework. The chapter demonstrated that, in spite of globalisation, the triple interaction mechanism is still relevant and valid. Given that the state plays the most important role in the triple interaction mechanism, a special chapter, Five, was designated to identify its form of intervention. Five state roles were identified. The chapter identified developmental state intervention mechanism. It revealed that such a mechanism is operated at two levels. At the first level, the developmental state seeks to arrange a triple interaction of its dependency agents, whereas, at the next phase, the developmental state manipulates the triple interaction to establish an embedded autonomy of its bureaucrats in the economic growth process. The chapter identified the developmental state as the one that retains an economic transformatory project and works to achieve it through manipulating the triple interaction of dependency agents in order to secure an embedded autonomy of its bureaucrats in the socio-economic process as a mechanism that enables the state to undertake successfully its interventionist roles. The study proposed the triple non-alliance as a

hypothetised model to account for Korea's economic growth pattern. This proposition was based on the conclusion that Brazil's derailed economic growth process was due to the triple alliance form of interaction. As the triple non-alliance is the negation of the triple alliance, Chapter Six was designated to consolidate the conceptualization of the TA/TNA concepts. To accomplish this objective, the chapter conducted an historical structural analysis of Brazil. Throughout this exercise the research emphasised the differences and the similarities of the policies undertaken by Brazil and Korea. The discussion revealed that Brazil's social structure was configured in a manner that produced a strong developmental state. The state- like that in Korea- was able to impose and manipulate this mechanism to produce successful economic growth process. However – unlike Korea- the developmental state in Brazil has chosen not to distinguish between the local capital and the multinationals. And because of the competitive advantages of the multinationals, they were the main beneficiary from the growth process. Consequently the state was not able to sustain the TNA. The loss of the TNA was translated into a derailed economic growth process. The main conclusion of the chapter was that it produced a consolidated TNA based analytical mechanism. The next task of the study was to apply this mechanism to analyze Korea's economic growth process. Chapter Seven analyzed Korea's social configuration. The process confirmed that the structural changes in the country produced a non-alliance form of triple interaction. It began with the late years of the Yi dynasty. The chapter identified internal social processes and examined the impact of external changes on their configuration. It demonstrated that Korea was subjected to fierce external rivalry that led to the country being annexed by Japan. Social configuration continued to unfold after the Japanese withdrawal and that of the American Military Government, up to the ascendance of the developmental state in

the spring of 1961. The chapter revealed that Korea at the time lacked any deep-rooted class to challenge state authority. It also demonstrated that Korea represented a new case of dependency, in which foreign capital was in the form of aid, whereas, in the previous Brazilian case, the multinational corporations were the dominant form of foreign capital. Accordingly, the state faced loose non- alliance interaction of the dependency mechanism. The TNA was defined as a form of dependency interaction, in which the developmental state prevents an alliance of domestic capital and foreign capital from influencing the state's bureaucrats and thus securing the latter's embedded autonomy.

The next chapter- Eight -related Korean economic achievement to TNA interaction. It started by revealing the way in which the newly-born developmental state worked to ensure its dominant position. The state adopted various measures that consolidated the TNA. Having accomplished this objective, the developmental state next embarked on several measures to empower its bureaucrats, that was, to ascertain their embedded autonomy. The combination of TNA and embedded autonomy enabled the state to discipline and consolidate domestic entrepreneurs. The state was also in a better position to implement a containment policy towards foreign capital. It gave preference to indirect foreign capital (loans) over the FDI form. Similarly, both features gave the developmental state the authority to suppress the demands of the labour force. The discussion next related economic performance to the policies just reviewed. It revealed the way in which the state manipulated those characteristics to place the economy on a growth track. It also showed that the state, equipped with the TNA and embedded autonomy, was able to deal with the ensuing crises. The developmental state came under serious test in the late 1990s. The last chapter, Nine, addressed the state's ability to sustain economic growth in the era of globalisation. It demonstrated



that globalisation forced the developmental state to adopt aggressive liberalisation policies. These policies at a certain stage (in Kim Young Sam's tenure) created a regulatory vacuum and consequent loss of TNA-balanced interaction. The situation prompted domestic entrepreneurs - who were growing in size and weight - to take advantage of the case and penetrate the state's bureaucrats. The economy was hit by various corruption cases that eventually culminated in the economic crash of 1997. The chapter revealed the association between the economic crisis and the loss of state ability to preserve the TNA and, consequently, the semi-embeddedness of its bureaucrats. This direct association between the loss of the TNA and deteriorating economic conditions was later confirmed by state success - through reinstituting the TNA - in salvaging the economy from the crisis. The chapter showed that the first step in the state's endeavour to put the economy back on track was to re-empower its bureaucrats by re-installing the supervisory system. Through such a step, the state, with the help of external relations (IMF), was able to discipline and contain the activities of all domestic entrepreneurs, foreign capital and the labour force. This success indicated the birth of the global developmental state. The advent of the crisis and the subsequent recovery represented a serious test to the TNA model. It further proved that the triple non-alliance was a reliable model to account for Korea's growth pattern.

Other main conclusions of the current research could be summarised in the following. First, the research presents a revival of the interest in dependency theory as a viable analytical tool to host development research. Second, the current research may also constitute the first work on a dependency model that conducts an historical-structural analysis. It was shown that previous dependency works lacked this kind of analysis. Third, the triple non-alliance (TNA) is the new concept consolidated by the current

study. The TNA mechanism was utilised to account for Korea's economic performance. Fourth, the global developmental state form (GD) is the other prime contribution of the current study. It has been demonstrated that the GD state corresponds to globalisation realities. Its most distinguishing feature is the democratically formed institutions. The GD state supervises an already well-established economic growth process. The strength and authority of the GD state is based on democratic institutions, rather than on a repressive security apparatus. Its functions retain a global dimension, seeking to globalise its economy. Its prime objective is to continue the economic growth by globalising its economy. The GD state promoted domestic corporations to operate globally, giving rise to a new form referred to - by the current study - as Southern Multinational Corporations (SMNTCs).

The issue remains whether the Korean experience represents a model for other developing countries to follow. The study has already confirmed that two sharply different historical trajectories of Brazil and Korea produced a strong type of state. The developmental states in both countries supervised a successful growth process. This result gives strong support for the argument that Korea's growth experience could represent a model for other developing countries to follow. Furthermore, this result supports the argument that dependency theory does appreciate the diversity within developing countries. Furthermore, the initial observation on the recent Chinese economic drive may support the argument that other developing countries with different social structural evolution could have strong states able to steer an economic growth process as well.

This argument leads to two other contributions of the study. The first pointed to the positive role of president Park Chung Hee's leadership and style. However, this is not to over-emphasise the explanatory significance of this issue, because many leaders in developing countries retained similar leadership skills. The second issue relates to the association between democracy and development. The study has demonstrated that the developmental state successfully supervised a transition to democracy. It also revealed that one of the main features of the GD state was its ability to strike a balance between democracy and development.

Indeed, the argument about the relationship between democracy and development could be detected a long time ago in the writings of Adam Smith. His writings raised the relevancy of a certain degree of economic liberty to "wealth creation". However, until 1945, the dominant view among social scientists on this issue was that democracy was the dependent variable that needed a certain degree of "material progress". Lipset (1959, 1994) advocated the existence of a positive association between sustained democracy and economic progress as "requisites" but not "prerequisites" (Burnell and Randall, 2005, p.192). After the Second World War (1945), the opposite view attracted serious debate and this produced four main positions on the issue. The first was that of modernisation theory, which maintained that democracy requires a certain degree of development. As such, it is a product rather than a cause of development. However, the 1990s witnessed a reversal of such a view. The modernisation view on democracy was abandoned. And it is argued that democracy is a precondition for development or at least parallel to it. Contrary to these views, writers such as Hyden (1985), Huntington (1987) and Sandbrook (1990), believed that democracy is incompatible with development objectives (Leftwich, 2000, p.129). The last view on the subject is the argument that democracy hinders the

development process. According to Leftwich, "an even stronger argument has traditionally been that the premature introduction of democracy may actually hamper development in its early stages, when there is a cruel choice between rapid (self-sustaining) expansion and democratic processes" (Leftwich, 2000, p.131).

The current research has revealed that the Korean case confirms the earlier modernisation theory view that democracy is a product of the development process. Here, a distinction must be made between the stage of initiating the growth process and that of sustaining it. The GD state corresponds to the second stage, that of sustaining the growth process in the globalisation era. It also revealed that - as in the Japanese case earlier - democracy can "coexist with high growth goals of developmental states" (Weiss and Hobson, 1995, p.19).

Hence, the Korean experience approximates to Adrian Leftwich's conclusion that "sustained growth and development has almost everywhere required a coherent, consistent and continuous policy path which has normally only been achieved by strong states through either non-democratic authoritarian rule or dominant-party democracy (Leftwich, 2005, pp. 686-703).

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